



FINANCIAL TIMES

OIL INDUSTRY

A wager against self-interest

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Monday December 4 1989

World News Business Summary

Rebel army units still fighting in Philippines

Fierce fighting continued in the Philippines last night between government forces and rebel army units...

Ferruzzi to share control of Italian insurer

RAUL Gardini's Ferruzzi Group has agreed to share control of La Fondiaria, top Italian insurer...

Crisis of confidence could create power vacuum • Bonn says move was unavoidable

E German leadership resigns

By David Marsh in Bonn

EAST GERMANY last night faced the threat of a power vacuum after Mr Egon Krenz resigned as Party chief...



Central Committee member Günter Schabowski tells a crowd near SED headquarters in Berlin that the Politburo had resigned...

The resignation of the Politburo and the Central Committee and a purge of former Socialist Unity Party (SED) leaders were announced yesterday...

A terse Politburo statement said members had stepped down to counter a further endangering of the existence of the party...

He is unpopular with the East German population and was widely seen in West Germany as an interim figure...

The move was welcomed by the West German Government as an "unavoidable" consequence of mounting unrest...

propelled by rising indignation among grass roots SED members over revelations of party corruption and mismanagement...

The unprecedented departure of the Politburo, leaving the Party temporarily in the hands of a "working committee" made up mainly of reformist regional SED chiefs...

former economic planning chief, who was a leading associate of Mr Honecker...

Mr Henry Tisch, the former transport minister, as well as three other officials from the Honecker regime, were also arrested...

According to ADN, the official East German news agency, they were accused of "misusing their functions to cause serious damage to state property and the economy..."

Mr Alexander Schalck-Golodkowski, a former East Berlin state secretary who was the SED's chief international trade and foreign exchange manager...

In a further attempt to bring to book perpetrators of corruption, the East German authorities yesterday announced the arrest of Mr Günter Mittag, the

Protest gathers again in Prague

By Leslie Colitt in Prague

THE new Government in Czechoslovakia was sharply rejected by the Opposition yesterday, which called for a mass demonstration in Prague today to bring it down...

Crowds began to gather last night in Wenceslas Square in the heart of the city, a probable forerunner of protests to come...

The 20-member Cabinet announced yesterday contained 16 Communists under Prime Minister Ladislav Adamec. Though it contained three non-Party ministers...

Civic Forum has also campaigned for the resignation of President Gustav Husak...

Bush hails 'deeper understanding' • Leaders promise greater economic co-operation

Summit paves way for Landmark talks arms cuts next year

By Quentin Peel and Peter Riddell in Valletta

THE US and Soviet leaders yesterday paved the way for wide-ranging arms control agreements to be completed next year and closer economic co-operation after a chaotic shipboard summit...

Maxim Gorky, safely moored at the Malta Freeport docks, while the US and Soviet cruisers, on which the summit was supposed to take place, bucked at anchor in the bay...

Mr Bush was isolated on the cruiser Belknap, unable to attend his scheduled talks and dinner with Mr Gorbachev for the whole of Saturday afternoon and night...

Wyoming 10 weeks ago. In particular, the two leaders laid the ground for a strategic arms reduction treaty and an agreement on reducing conventional forces in Europe...

Mr Baker and Mr Eduard Shevardnadze, the Soviet Foreign Minister, will meet in Moscow in a month to deal with outstanding problems. These include three specific issues in the way of concluding Start: how to deal with air-launched strategic missiles...

and waves of 15-20 ft prevented the two leaders from fulfilling their scheduled programme of meetings on each other's warships...

On Saturday, both the afternoon meeting and the scheduled dinner on the USS Belknap were cancelled because of the heavy seas...

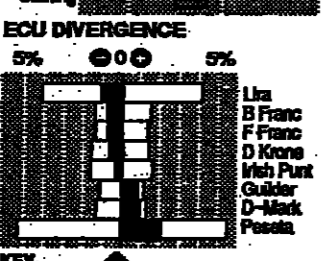
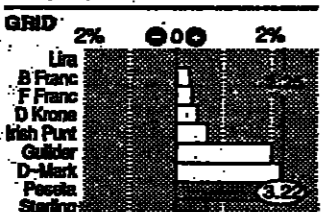
Mr Bush and Mr Gorbachev should have been warned. Some 2,000 years ago St Paul was shipwrecked on this island in similar weather and, a year ago almost to the day, the dreaded "Grigal" wind caused havoc nearby as great as it did during the summit...

The presentation of the substantially unchanged government by Mr Adamec reflected a tough line by the new Czechoslovak Communist leader, Mr Karel Urbánek...

The Government has also proposed negotiations with the Soviet Union on the "temporary stay" of Soviet troops in Czechoslovakia...

Singh pledges aid V P Singh, in his first address as India's new Prime Minister, promised to devote half of government resources to villages...

December 1, 1989



The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 2 1/2 per cent...

Soviet environment A decree to curb damage to the Soviet environment rules that all future projects must be vetted by ecological experts before receiving state financing...

Brussels explosion Twelve people were killed and three seriously injured at a Brussels shooting range when ammunition exploded in a cellar...

Syria boosts troops Syria boosted its forces facing Lebanon's Christian enclave as mediation efforts stalled...

Thatcher campaign The campaign to re-elect Mrs Margaret Thatcher as British Prime Minister stepped up as the Conservative Party prepared to vote in its first contested leadership election since 1975...

Azeris reject ruling The Government of the Soviet republic of Azerbaijan said it will reject part of a Kremlin ruling altering the status of the disputed territory of Nagorno-Karabakh...

Arab girl shot The Israeli army moved to purge the old town of Nablis, reportedly killing an 11-year-old girl and arresting many other Palestinians...

Bhopal arrests About 300 survivors of the Bhopal gas disaster were arrested when they marched to the closed-down Union Carbide factory on the fifth anniversary of the world's worst industrial accident...

Taiwan results Taiwan's main political opposition, the Democratic Progressive Party, made significant gains in the country's first free elections...

Sri Lanka killings At least 17 government soldiers were killed when members of an outlawed Tamil army group ambushed their vehicle in northern Vavuniya district...

Pretoria to halt raids South Africa will stop raids into neighbouring black-ruled countries and supporting anti-government groups there...

Morocco referendum Nearly 100 per cent of Moroccan voters have approved a referendum delaying municipal elections until after a UN-sponsored vote of the people deciding the allegiance of the Western Sahara...

Chess solution Due to technical problems, the solution to the FT's Chess Problem No.800 did not appear in some issues of Saturday's American Edition...

US Treasury secretary Nicholas Brady and the new Securities and Exchange Commission chairman, Richard Breiden, have joined forces to call for higher margins in the Chicago futures markets...

MOBILE TELEPHONES: The consortium headed by Mannesmann, the engineering company, has emerged as the front runner to win the licence for West Germany's first privately-operated network...

JAPANESE companies are likely to account within 20 years for 50 per cent of manufacturing production in western Europe, according to a study...

MATRA, the French arms and electronics group, has denied it is interested in taking a minority stake in Ferranti International Signal...

THE EUROPEAN Investment Bank will increase its borrowings on the international capital markets by almost 20 per cent this year...

CARLO De Benedetti's control of London's City's largest publishing group is in jeopardy following a change in shareholder alliances...

MCA, the big US entertainment group, and the Bronfman family of Montreal have won an eight-month battle for control of Cineplex Odeon, North America's second-largest cinema group...

J.P. MORGAN, the US merchant bank, announced the launch of a global bond index which covers 11 national markets and is composed of liquid instruments that can be traded quickly...

MERRILL LYNCH, the diversified US financial services company, has launched a London-based fund designed to invest in the bonds of developing countries, particularly in Latin America...

SWEDEN'S Bank Inspection Board looks set to launch an investigation into suspected insider trading connected with a deal involving Bejler, big investment group...

HESTAIR, the personal services and consumer products group which is facing a \$167m hostile bid from Adia, a Swiss counterpart, has sold one of its consumer products subsidiaries for £11.65m...

Mr James Baker, US Secretary of State, said there was "potential for real chemistry between the two leaders." He talked of moving "from competition to dialogue, and then to co-operation..."

The two leaders joked together about when exactly yesterday the Cold War had ended; was it 12.45, or 2.27? The harmonious conclusion followed a truncated series of talks on the Soviet cruise liner

For his part, Mr Bush promised that the US would not "do anything unrealistic [that] causes any country to end up going backwards." The final statement underlined the improvement in US-Soviet relations this year, especially since the two countries' foreign ministers met in



Summit smiles: Presidents Bush (left) and Gorbachev on the Maxim Gorky yesterday

CONTENTS THE MONDAY INTERVIEW West German novelist Günter Grass has two pressing concerns as a writer and a human being: the future of Eastern Europe and the environment...

Welcome to all multinationals new to this country. (You're also welcome to use our tax capacity.) Even for multinationals, the cost of setting up a major company in the U.K. is sobering. Acquiring the necessary factories, plant and equipment can mean vast capital expenditure...

## THE MALTA SUMMIT

## US LEADER APPLAUDS 'NON-SUMMIT' Bush and Gorbachev clear way for arms agreements

By Peter Riddell, US Editor, in Valletta

PRESIDENT George Bush yesterday joked at the end of his unprecedented joint press conference with President Mikhail Gorbachev that he could not have hoped to achieve a better result from a non-summit summit.

For all the near-fiasco of Saturday's storm-interrupted discussions and the abbreviated talks, Mr Bush could claim that his idea of a relatively informal and unstructured session with Mr Gorbachev had worked.

As expected, there were no specific decisions, the way has been cleared for a series of arms control agreements at the fully-fledged US/Soviet summit in Washington in the second half of June next year, as well as for increased economic co-operation.

It has been a typical George Bush exercise - carefully prepared after lengthy consultation with both US allies and Soviet experts in the US. It is all part of his incremental style of diplomacy: modest - what he terms "prudent" - advances, rather than dramatic leaps forward.

Of the 16 points carefully looked to the US press late on

Saturday to distract attention from the storm, only one had any real novelty.

This was the suggestion that the US and the Soviet Union jointly support an application by Berlin to host the Olympic Games in 2004.

The other points - the date of the next full summit, economic co-operation, trade and arms control etc - were all largely predictable developments of existing trends.

There is nothing wrong with this. Greater predictability and certainty in US policy has been seen by European politicians as a welcome contrast with the conduct of some recent US administrations.

More generally, both leaders claimed to have gained a deeper understanding of each other's views. There was no attempt to disguise differences - for instance about bringing naval forces within the scope of arms control (backed by the Soviet Union, but opposed by the US).

Similarly, if there was no agreement over Central America, there was, at least, no recriminations over the supply of arms and an acceptance of "a political solution".

Behind the grand claims of Mr Bush about being on the "threshold of a brand new era of US/Soviet relations," the two leaders appeared to be on the same wavelength - not least in stressing the continuing role which co-operation between the two countries can still play in securing the stability of Europe.

Mr Bush and his advisers have travelled a long way this year in their view of Soviet behaviour.

There was no surprise therefore when the US President talked of the "enormous support and respect" in America about the way Mr Gorbachev has advocated peaceful change in Europe.

According to US officials, Mr Bush will be going home confident he can work with Mr Gorbachev, as well as strengthened against critics who claim his policy towards the Kremlin lacks vision.

"You get the feeling he really wants to work with us," Mr Bush said about the Soviet leader.

A US official said of Mr Bush: "He's been talking about his policy of moving beyond containment for a year and



George Bush, left, and Mikhail Gorbachev at their joint press conference yesterday

now this meeting is a fruition of that. It puts meat on the bones that a lot of critics said was not there."

Before leaving Malta for Brussels to brief Nato partners, Mr Bush was asked if the Cold War was finally over. He simply smiled and flashed a thumbs-up sign.

## El Salvador issue fails to rock boat

By Quentin Peel

DETERMINATION to emerge from the Malta summit in a spirit of co-operation, not confrontation, effectively muted President George Bush's criticism of arms supplies to El Salvador.

At the same time, both sides paid tribute to their respective efforts to promote peace in both Lebanon and the Arab-Israeli conflict - jointly in the former, and separately in the latter.

While the US leader made it quite clear that he was still unhappy about the flow of arms to Salvadoran guerrillas, allegedly through neighbouring Nicaragua, he said that he accepted Mr Gorbachev's assurances that Moscow was not involved.

Instead, he directed his anger at the Nicaraguan Sandinista Government, insisting that it must be misleading the Soviet Government in denying any involvement in the supplies.

For his part Mr Gorbachev repeated his Government's

support for a political settlement in the region, including UN-observed elections in Nicaragua.

"We understand the concerns of the US," he declared. "We listened carefully to the arguments of President Bush in this respect, and we assured him that our position of principle is that we are in favour of a political settlement of the situation in Central America."

"There are possibilities to have a peace in that area, tranquility in the interests above all of the peoples of that region, which do not run counter to the interests of the US."

For his part, President Bush said there were still "differences" between the two sides, but "we talked about them... I would like to think they have been narrowed."

On Lebanon, the two agreed to continue to exchange views. President Bush said the two were "in total agreement" in supporting the tripartite agreement in Lebanon.

## Trade proposals seek to draw Moscow into world economy

By Peter Riddell

THE US proposals on trade with the Soviet Union are intended to help advance what President George Bush has described as the reintegration of the Soviet Union into the world economy.

There are four main elements:

● A promise to remove current restrictions and grant the Soviet Union Most-Favoured Nation Status once the Supreme Soviet has approved laws codifying the liberalisation of emigration laws. This will involve waiving the Jackson/Vanik amendment which imposed trade restrictions in response to obstacle to Jewish emigration.

● Allowing the US Exim Bank to provide guarantees on trade with the Soviet Union. Change would raise upper limit of export credit above present \$300m (\$187.5m).

● Seeking a mutual investment treaty under which Soviets would provide guarantees about repatriation of profits; and permitting the Overseas Private Investment Corporation (Opic) to provide insurance guarantees on US private sector investment and joint ventures in the Soviet Union.

● Supporting the grant of observer status to the Soviet Union at the General Agreement on Tariffs and Trade, the Geneva-based organisation which negotiates international trade policy, but this would only be after the completion of the current Uruguay Round negotiations, expected by the end of 1990.

These proposals are more of symbolic significance than enormous economic importance since trade between the US and the Soviet Union is relatively small, running at less than \$1.5bn in the last couple of years.

Moreover, there has been a massive imbalance in favour of the US, whose exports to the Soviet Union have been between five and six times Soviet sales to the US. This reflects the large US grain exports to the Soviet Union and the relatively few Soviet products which the US wishes to buy. Gold has accounted for around a quarter of recent US exports to the Soviet Union.

On the investment side, there have been roughly 1,000 joint ventures registered between companies in the two countries. However, most are in the service sector rather than in manufacturing, on the evident disappointment of the Soviet side.

Soviet economists have admitted that joint ventures and external investment have been inhibited by centralised control and an inadequate pricing system.

However, the Soviet hope is that reforms to encourage enterprises to carry out their own export/import operations - as well as long-term moves towards a convertible rouble - will stimulate both investment and trade.

President Bush's trade proposals are likely to be welcomed in the US by all but a few conservative Republicans who are suspicious of helping the Soviet Union. In particular, Senator George Mitchell, the Democratic Majority leader, has been urging precisely the sort of trade steps now announced. Similarly, Senator Lloyd Bentsen, the chairman of the Senate Finance Committee, which has jurisdiction over such trade matters, has talked favourably about at least a temporary waiver of Jackson/Vanik.

In addition, President Bush repeated the US willingness to provide technical and expert assistance to help economic reform.

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## Soviet Union refines line on Germans

By Quentin Peel in Valletta

MR Mikhail Gorbachev yesterday again refined the Soviet attitude towards the ultimate prospect of reunification in Germany - warning against any "artificial acceleration" of the process, but not ruling out the prospect finally.

His words at the end of the Malta summit with President George Bush coincided with a more open-minded assessment from a leading Soviet foreign policy adviser, who underlined the difference between changes in the external borders of the two Germanys and the one between the two countries.

The more careful Soviet attitude towards the German question contrasts with the immediate strongly hostile response by Soviet officials to any hint of reunification, both after the reopening of the Berlin Wall,

THE US is expected to provide Malta with two patrol boats and two fixed wing aircraft to help patrol its territorial waters against arms and drug smuggling, writes Godfrey Grima in Valletta. At the same time US government agencies will help to identify industrial projects suited for Malta and help train the island's 1,000-strong army.

and after Chancellor Helmut Kohl published his 10-point plan for confederation leading to unification.

Mr Gorbachev stressed once again the importance of the Helsinki agreement, which recognised the existence of two German states, and the post-war borders of Europe.

"Reality is such that we have in today's Europe two German states," he said. "Both are members of the United Nations and sovereign states."

"In order to remain realistic, we should say that history

itself decides the process and fate of the European continent, and also the future of those two states.

"Any artificial acceleration of the process would only exacerbate and make it more difficult to change in many European countries."

This was an apparent reference to the possible conservative backlash against reform which the threat of rapid German reunification could trigger in the Soviet Union. "It would not serve that process by artificial acceleration of the process," Mr Gorbachev said.

Mr Valentin Falin, head of the international department of the Communist Party central committee, and a former ambassador to Bonn, also warned against the temptation for reunification to become an issue in West Germany's domestic politics.

However, he said that in the long run "unusual situations require unusual solutions".

There were two distinct border issues: any attempt to change the external borders of the two Germanys would be "shaking the reality in Europe," he said.

However, the internal border between East and West Germany had been "a front line for 40 years. Such a front line in a sense endangers security in Europe too."

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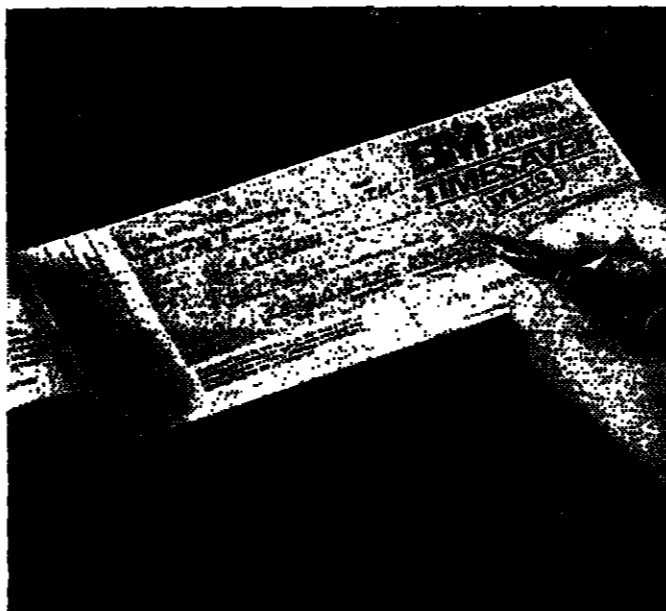
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**EASTERN EUROPE**

**David Marsh reports on the hurricane of anger over corruption which is sweeping away the old Communist hierarchy in East Germany**

**Berlin Politburo takes collective step to oblivion**

**T**HE mass resignation yesterday of the East Berlin Politburo, only three-and-a-half weeks after it took office, marks one more step towards the dissolution of the Socialist Unity (Communist) Party's 40-year hold over East Germany.

In its place comes a power vacuum. The breathing space achieved for the Communist leadership by the new faces promoted to the top last month has proved short-lived.

So deep is the crisis in the Communist Party that its entire Central Committee also quit yesterday, without even waiting for the special party congress later this month, when rank-and-file members are expected to sweep out many old stalwarts and replace them with reformers.

The crisis of confidence in the Socialist Unity Party (SED) has gathered pace since the Berlin Wall was opened on November 9.

Free travel to the West has introduced a new mood of cold realism about the country's economic plight. And a sudden

burst of glasnost in the East German media, stoked by street protests, has uncovered massive corruption and abuse of privileges by the entourage of Mr Erich Honecker, the deposed leader.

Anger is all the greater because East Germany was supposed to be the first workers' state on German soil. "This was not Socialism, but Stalinism," according to Mr Stefan Heym, the dissident East German novelist, who is among opposition figures distraught at the psychological damage of the corruption revelations.

Others would go further. The web of numbered bank accounts, secluded hunting lodges, Western luxuries and clandestine international trading deals surrounding the former SED leadership throws up unflattering parallels with the unfettered life-styles of Nazi chiefs under the Third Reich.

Mr Egon Krenz, the successor to Mr Honecker, who lasted only six weeks as party chief, was whistled and shouted down when he tried to calm several thousand enraged SED



Yesterday's casualties, from left: Egon Krenz, party leader, who resigned and Erich Honecker, his predecessor, expelled from the party; Günter Mittag, Harry Tisch and Gerhard Müller, all former Politburo members arrested on corruption charges; and Alexander Schalck-Golodowski, former Foreign Trade chief, wanted by police for illegal arms trading.

members outside the party's headquarters on Saturday.

After demonstrations in several cities and strike threats from indignant factory workers, East German radio and television at the weekend pointedly carried stories calling for the Politburo to quit.

Yesterday's news of the arrest of leading members of the Honecker regime - headed by Mr Günter Mittag, former economic planning czar - was an attempt to boost confidence in a cleansing process at the top. But in view of the network of fraud and deceit coming to light, it is uncertain whether confidence can be restored.

Mr Krenz has to give the prosecutor instructions underlines the dependence of judicial authorities on the political leadership.

The delay between the ousting of Mr Honecker and firm efforts to clear-up the allegations of infringements has been a prime factor behind the public disquiet over whether Mr Krenz really brings in a new broom.

The protests go well beyond complaints about the former leadership's lavish life at Wandlitz and at hunting lodges in Mecklenburg. Building and equipping these residences appears to have been one of the many uses of secret SED

funds earned through the manifold foreign exchange procurement activities co-ordinated by Mr Alexander Schalck-Golodowski.

"Big Alex", as his colleagues respectfully call him, was head of the SED's multifarious currency transactions department, with activities ranging from the earning of commissions on the supplying of expensive Western limousines for the party nomenclatura.

Mr Schalck, whose operations were closely entwined with the secret service, was last night said to be outside East Germany, with an East German

arrest warrant out for him. The heated emotions behind yesterday's arrests were sparked off by a statement late on Friday to the East Berlin Volkskammer (Parliament) by Mr Heinrich Töpfer, the chairman of the new committee set up to investigate alleged corruption.

East German deputies voiced dismay at reports that clandestine East German companies had lodged around 100bn East marks in foreign exchange and gold with Swiss banks. Several women Volkskammer deputies were in tears.

Similar indignation has been aroused by discovery of a secret arms cache near Ros-

tock, on the Baltic coast, maintained by Ines, a secret arms-trading company set up by the SED to supply weapons to the Middle East, Africa and South America.

The official news agency, ADN, said residents were outraged at finding unsuspected stores of filled ammunition boxes, weapons and other military technology maintained dangerously close to houses.

Further revelations are almost certain as the result of the work of the parliamentary committee.

Time to clear up the questions of responsibility and defuse the dismay is fast running out.

**Prague opposition to renew protests over new cabinet**

By Leslie Collin in Prague

"THIS IS even worse than the old government," a member of the Civic Forum opposition said, shaking his head in disbelief at yesterday's newly formed cabinet in Prague under Prime Minister, Mr Ladislav Adamec.

It was worse, he said, because the opposition had demanded a pluralistic government and was instead confronted with a massive 16 out of 20 cabinet appointees who were members of the Communist Party.

The key defence and interior ministries were again both given to communists, although Civic Forum had called for a non-communist to be named to one of the posts. It also demanded that both men be civilians, but the new Defence Minister was again a military man, Gen Miroslav Vacek, and the Interior Minister, Mr Frantisek Pinc, was believed to hold military rank.

Mr Adamec appeared to believe that he could get away with what amounted to a reshuffled communist-dominated government. A senior Communist Party official noted that Mr Adamec was essentially doing the bidding of the party's new general secretary, Mr Karel Urbanek, who was flexing his muscles against the opposition.

Civic Forum's spokesman, Mr Jiri Dienstbier, said after the cabinet was announced that the opposition was calling for a "gathering of citizens" at 4pm today on Wenceslas Square in protest against the new government. This meant a resumption of the daily mass protests which brought down the former communist leadership under Mr Milos Jakes and led to the resignation last week of Mr Adamec's previous government.

The demonstrations, suspended last Tuesday after a general strike, were likely to

grow more powerful and to continue until the newly announced government stepped down, opposition leaders indicated.

Persistent rumours of an imminent crackdown on the opposition by the army and security forces were not wholly rejected by Civic Forum, but were thought to be unlikely in view of the international situation.

The Soviet Union on Saturday admitted that it wrongly intervened militarily in 1968 against Mr Alexander Dubcek and Moscow offered no hint of support for a hardline solution in Prague now.

"The Government doesn't control the army and no-one controls the security forces. For that matter we severely control Civic Forum outside of Prague," Mr Jan Urban, a leading opposition member, noted. In such a situation there had to be a compromise with Mr Adamec. "But we cannot compromise too much," he said.

The five non-communists in the cabinet consisted of three appointees with no political affiliation and only one each from the People's and Socialist parties. This was a slap in the face for the Socialists in particular, who had backed the opposition in recent weeks.

Of the cabinet appointees, 80 per cent were previous members of the Government and six out of 21 came from Slovakia which forms the smaller part of the Federation with the Czech Lands. One woman made it into the cabinet, Ms Kvetoslava Korinkova, who is responsible for the People's Control Committee.

Mr Jaromir Johanes remained Foreign Minister and Mr Bohumil Urban continued as a first deputy Prime Minister. Mr Jaromir Zak retained his dual posts as a deputy Prime Minister and head of the State Planning Commission.

**Ceausescu bleak on economic prospects**

By Judy Dempsey in Vienna

AS reforms sweep throughout Eastern Europe, Mr Nicolae Ceausescu, Romania's hardline President and Communist Party leader who has repeatedly rejected erosion of the party's monopoly, has delivered a bleak analysis of the country's economic situation.

Speaking last Friday to a meeting of the Political Executive Committee, the equivalent of the politburo, Mr Ceausescu listed a catalogue of grievances, including the food shortages.

Although he regularly criticises ministers, and sacks them almost at random, for their failure to fulfil the plan and to boost exports - the plank of Mr Ceausescu's economic policy - this time he explicitly criticised the PEC itself, over which he and his extended family hold considerable influence.

"There have been many shortfalls in the past," he said, "which are linked to the way the PEC prepared certain adopted measures and above all the way it prepared the action to make them work."

And in language typical of his haranguing style, Mr Ceausescu insisted that it was "absolutely necessary... and

in absolute order, that the whole style of ministers, and activists of the working revolutionary democracy, work."

He gave no indication how the food shortages, exacerbated by the fact that much of the produce is earmarked for the export market, should be tackled.

However, he called for what he termed "a special programme needed to mobilise food production and light industry within two years to satisfy consumer demand".

The last time Mr Ceausescu addressed the question of food supplies was in 1982, when, desperate for hard currency to repay the country's hard currency debt, he justified diverting produce away from the domestic market to the export market on the grounds that the Romanians were either eating too much or were hoarding vast amounts of food.

At the same time, he said that Parliament, which the party controls with an iron hand, should "play a greater role". He did not spell out in any detail how parliament's non-existing influence could be created but simply said that the Communists should remain responsible to the party.

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The 7 Series has wide international support, as is impressively demonstrated

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In England, the home of the luxury limousine, "What Car" has chosen it as the "Car of the Year" in '87 and '89 and as the "Best Director's Car" in '87. In extremely car-conscious Japan, "Sports Nippon" awarded the title of the "Best Import Car" to the 735i.



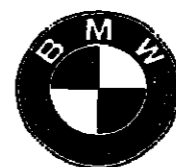
■ You will find the BMW branch not far from Red Square: Puschkinskaja ul. 9/10, Moscow.

In Italy, with its leading automobile couturiers, jurors from eleven international specialist journals added the "Car Design Award" to an already impressive prize list.

In the United States, the country with the largest automobile market, the 750iL obtained the "Best Overall New Car", "Best Foreign Sedan" and "Best New Engine" awards, all in 1988.

At home in Germany, the 7 Series was elected in 1989 – for the third time in succession – as the "best (premier class) car in the world" by the readers of "auto motor und sport".

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### OVERSEAS NEWS

## Brussels draws up proposals on energy efficiency

By Lucy Kellaway in Brussels

**T**HE European Commission plans to put forward new legislation on energy efficiency, and is to order an inquiry into whether energy taxes could be changed to cut consumption and make energy prices better represent the environmental costs.

These are two measures contained in a paper on energy and the environment agreed by the Commission last week, outlining Brussels' first attempt at an environmentally sound energy policy.

The report addresses the long-term problem of how to reduce carbon dioxide emissions, and hence ease the greenhouse effect. It warns that in the absence of any measures taken by the Community, such emissions will grow continuously until 2010.

The subject has proved contentious among commissioners and is likely to be more so among member states. Not only does it cut across the question of nuclear power, on which member states are divided, but also across the sensitive issue of energy taxation. It has taken four months to agree on the report within the Commission, and extra paragraphs spelling out dangers of nuclear power have had subsequently to be inserted.

The Commission studiously avoids taking a view on the future of nuclear power, and simply proposes that there would be general debate on its merits and dangers to establish broad political goals. However, the report implies that the most effective way of cutting carbon emissions would be to

## EC Commission chooses the fast-track approach

Tim Dickson reports on progress towards a common transport policy for the single market

**W**HEN Mr Karel van Miert was given the job of European Community Transport Commissioner at the start of 1989, few outside his native Belgium took much notice of this once fiery Flemish Socialist.

Over the last few months, however, Mr van Miert, who is 46, has attracted growing attention beyond Brussels as the EC Commission has sought to lay the foundations of a common transport policy capable of serving the interests of a single European market.

Radical, and invariably controversial, new ideas have been tabled on airlines, shipping and railways since the beginning of the year. The struggle to force member states to accept a fresh dose of liberalisation, their road haulage markets could pay off today or tomorrow with an important deal on "cabotage" in the Council of transport ministers. (Cabotage is the freedom, currently denied in the Community, for non-residents in a member state to offer transport services within that country's borders.)

Responsibility for leading the negotiations at today's meeting will fall to Mr Michel Delebarre, France's Transport Minister, the council's current chairman. There is much at stake for France in the last transport meeting of its six-month EC presidency. The occasion will also be a test, however, of the Commission's and Mr van Miert's attack on some of the Community's most entrenched and powerful national monopolies.

Some people in Brussels worry that Mr van Miert's boyish looks are a sign of his lack of experience in the tricky poli-



**1002**  
**THE EUROPEAN MARKET**

**Delabarre chairs today's talks**

tics of the EC Council chamber. Such concerns can only be resolved over time. In a recent interview, however, Mr van Miert responded to another set of criticisms: that certain of the Commission's ideas are at best unclear, at worst incoherent.

"In the past transport policy has not been in the centre of our preoccupations," he admitted, "but now that the single market is under way and transport problems in the member states are increasing in number it is becoming absolutely crucial."

As he tells a Socialist, Mr van Miert insists that such a policy must have safety, social, environmental, and international dimensions as well as being about competition. "I think that competition is a very important element," he explains, "but it is not the only one." While threatening member states with a new action in the European Court of Justice if they do not take a "significant step" towards cabotage, for example, he talks equally earnestly of his plans to consult employers, workers "and all interested parties" on Brussels' wider strategy for the road transport sector.

The real prize for this Commission, however, is piloting through the proposals wrapped up in what is known as the second aviation package - a series of liberalising measures designed to break the stranglehold which governments and the big state carriers continue to exert over this most important of sectors.

Cheaper and more varied travel within the European Community is seen as a condition of faster economic growth



Delabarre chairs today's talks

one run by the Bundespost, the federal postal system, and the second by private industry.

The ministry refused to confirm or deny reports that a special advisory committee had recommended the Mannesmann-led consortium for the second network. The consortium also includes Pacific Telesis of the US, Lyonnaisse des Eaux de France, and Deutsche Genossenschaftsbank (DG Bank). Mannesmann had no comment.

The committee, headed by Mr Erhard Kantzenbach, former chairman of the Monopoles Commission, is believed to have singled out three consortia, the next two being those headed by BMW, the car maker, and MAN, the engineering concern. Also vying for the licence is a consortium of 70 small and medium-sized companies headed by the Manuskripts financial group.

Mr Schwarz-Schilling is expected to announce his decision this week, possibly on Wednesday.

### WORLD ECONOMIC INDICATORS

FOREIGN EXCHANGE RESERVES (US\$m)				
	Sept '89	Aug '89	July '89	Sept '88
UK	34,890	34,340	35,530	38,869
US	32,660	33,413	34,021	19,915
W. Germany	52,993	52,250	52,101	52,705
Japan	79,605	81,931	82,181	84,446
Belgium	9,223	9,012	9,146	7,564
Italy	44,708	41,185	39,591	26,999
Netherlands	14,772	14,497	14,937	13,129
France	23,222	22,957	22,445	26,320

### Mannesmann favoured for mobile phone deal

**T**HE CONSORTIUM headed by Mannesmann, the engineering company, has emerged as the front runner to win the licence for West Germany's first privately-operated mobile telephone network, to be awarded by the West German Government this month, writes Andrew Fisher in Frankfurt.

Shares of Mannesmann and of Cable and Wireless, the UK company in the consortium, rose sharply on Friday in anticipation of a favourable decision by Mr Christian Schwarz-

### Twelve die in fire and blast at Belgian shooting club

**A** FIRE and gunpowder explosions yesterday killed 12 people and injured eight others at a shooting club in suburban Brussels, officials said, AP reports from Brussels.

Most of the victims were badly burnt when they were unable to escape from the engulfing fire and ammunition explosions at the "109 Club". Three of the injured had to be taken to a military hospital for treatment for severe burns.

The accident happened when some of the 40 people at the club were at the range for shooting practice.

The cause of the midday blast has not been determined, although police said sound isolation material around the range could have caught fire.

A Brussels police spokesman said this could have been caused when a spark touched off gunpowder remains in the air and on the floor.

### Delabarre chairs today's talks

During internal deliberations in Brussels, the lengthy document contains two main proposals - compulsory separation in accounting terms of a country's railway infrastructure from the services which use the track, and guaranteed Community transit rights for so-called "international" rail companies, which in practice means joint ventures between railways in at least two member states.

Contrary to some reports, there would be no automatic right of access for new rail companies to run services over a country's track but this is clearly what the Commissioner envisages down the line. "Normally it should be possible - why not? - that every railway company which has been authorised could use infrastructure wherever in the Community."

The Commission, he says, is starting from the beginning and will have to proceed "step by step." What is crucial is to get companies to work together. He cites a lost opportunity in the case of the new Train à Grande Vitesse route from the coast of France to Brussels and Paris: "It is regrettable, for example, that with TGV Nord it was not possible that the railway companies concerned did not create a common company to run and manage the business. It would have been very logical."

Mr van Miert describes the recent railway proposals as "a first package" akin to the first steps towards airline liberalisation. "Since we start from such an extremely frozen situation we are just talking about getting things moving."

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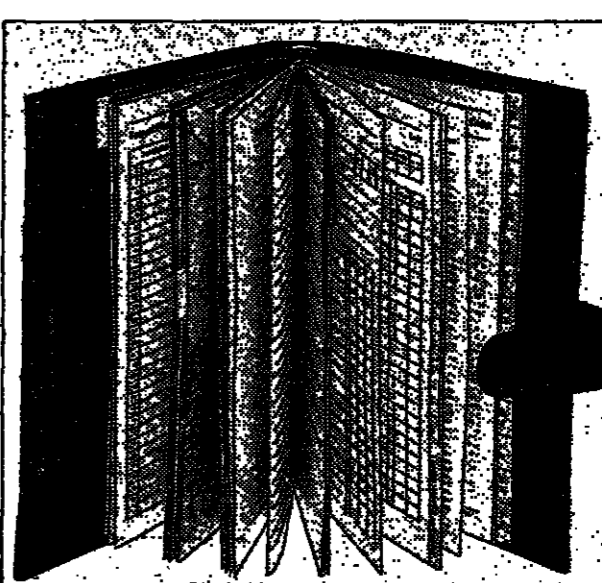
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UK NEWS

# Tory faithful gear up for leadership contest

By Ralph Atkins

THE CAMPAIGN to re-elect the Prime Minister stepped up a gear at the weekend as Conservative MPs prepared for tomorrow's vote in the party's first contested leadership election since 1975.

Mrs Margaret Thatcher is expected to win a convincing majority over Sir Anthony Meyer, her token challenger. But there is no clear indication of how many dissenters will either abstain or vote against her.

More than 20 "loyalist" MPs spent the weekend rallying support for the Prime Minister

under the direction of Mr George Younger, the former Defence Secretary, who is acting as her campaign manager.

The vote is seen as a rare opportunity for the 374 Conservative MPs to express in secret their anxieties about Mrs Thatcher's style of leadership. A total number of votes and abstentions approaching 100 would be widely seen as evidence of widespread disenchantment.

Mr Younger yesterday acknowledged the Prime Minister's attitude towards Europe had emerged as an issue in the

campaign - but denied it had divided the party. "She is a strong pro-European... She has, however, strong views on how Europe can best run itself," he said.

His remarks, however, coincided with comments on BBC Television by Mr Edward Heath, former Conservative Prime Minister, who described Mrs Thatcher as a "narrow little nationalist."

In addition, Sir Leon Brittan, the UK's senior European Commissioner, signalled differences with Mrs Thatcher on several points in a television inter-

view. The former Tory Home secretary backed proposals for an independent Bank of England and highlighted a "decided ambiguity" in the Government's alternative to the Delors report on European economic and monetary union.

Unease among Conservatives about Europe could undermine Mrs Thatcher's position at next weekend's European Council summit meeting in Strasbourg. Last night she flew to Brussels for today's briefing of Nato leaders by US President George Bush.

Sir Anthony Meyer said he is

at odds with the Prime Minister over the European issues. He does not regard himself as a pretender to her throne but believes Conservatives should be able to pass judgment on Mrs Thatcher's premiership.

In an open letter published in The Sunday Correspondent newspaper, he said: "For a long time there has been a clear majority in the Cabinet in favour of joining the European Exchange Rate Mechanism. The Prime Minister almost alone has blocked it and there is every indication that she will go on doing so."

# BA to pay £30m for stake in Sabena

By Andrew Hill

BRITISH AIRWAYS will this week confirm the purchase of a 20 per cent stake in Sabena, the Belgian airline, for about £30m.

KLM Royal Dutch Airlines is also buying 20 per cent and the balance will be held by the Belgian Government. Both British Airways (BA) and KLM, 89 per cent of which is owned by the Netherlands Government, are expected to have seats on the Sabena board.

The deal was first heralded in June but negotiations became bogged down while BA concentrated on its consortium bid for United Airlines (UAL) of the US. Financing for the \$6.8bn buy-out - in which BA would have had a 15 per cent stake - collapsed two months ago, triggering a slump in the US stock market.

According to the original outline of the deal, Sabena would be restructured with increased capital and a new subsidiary, Sabena World Airlines, set up to conduct the airline operations. KLM and BA have been invited to take stakes in the subsidiary.

The link would give BA another "hub" airport in Brussels, taking some of the strain off British airports, which are already overcrowded.

A formal announcement of the Sabena deal - expected early in the week - will probably outline operating and marketing agreements. It could also cover international operations, training, reservations, fleet re-equipment and maintenance.

The cross-border deal will still require approval from the European Commission, which is likely to be prompted by other airlines worried about possible anti-competitive links between two of the EC's largest airlines.

BA believes there will be few problems because UK and Belgian airlines are not direct competitors.

BA will have no difficulty funding the purchase of the Sabena stake. It raised £320m with a rights issue to finance part of the UAL deal, although only 63 per cent of the issue was taken up by existing investors.

# Ambulance union offers compromise

By Fiona Thompson

THE Association of Professional Ambulance Personnel will recommend acceptance of the Government's 9 per cent, 18-month pay deal for ambulance workers if some elements of the overall package are improved.

Department of Health officials will this morning begin talks with the breakaway group in a bid to break the deadlock in the 12-week-long pay dispute.

APAP, formed in 1981 after the 1979/1980 health service unions' dispute, will form the basis of a new ambulance pay negotiating body to run in parallel with the existing Whitley Council, on which the five Trades Union Congress-affiliated ambulance unions are represented.

It is thought Hasty that any agreement reached with APAP would be imposed by the Department of Health on all of the country's 22,500 ambulance workers.

The five TUC unions rejected a 12-month, 6.5 per cent pay offer and the subsequent 18-month 9 per cent deal.

None, the union representing the largest number of ambulance staff, said yesterday that even if the Government did impose on all staff any deal with APAP, it would not mean that people would have more money in their pockets to continue the dispute.

# Vauxhall pay deal revives hope for £200m engine plant

By Michael Smith, Labour Correspondent

MANUAL workers at the Ellesmere Port plant of Vauxhall, the car manufacturer, will win a 5 per cent wage rise - on top of any annual increase - as part of a deal on changed working practices and bargaining procedures agreed at the weekend.

Vauxhall hopes to use the agreement to persuade General Motors, its US parent company, to site a £200m engine plant - which would provide up to 400 jobs - at the Liverpool port. The alternative to Ellesmere would be at Kaiserslautern in West Germany.

The company failed, however, to win all it was looking for from the unions in the five-month-long negotiations which ended on Saturday. Vauxhall had said that today would be the final deadline for a wage agreement.

Although neither management nor unions would go into details yesterday, it is understood that Vauxhall did not win the right to introduce double day shifts, which would have enabled the plant to stay open longer.

Although the unions were not wholly opposed to the idea in principle, the two sides could not reach agreement on pay for the shifts.

It is understood that the company also failed to win the large-scale reduction it was looking for in shop stewards,

who presently number more than 160.

Nonetheless, the company has won considerable concessions. The unions have agreed to more work flexibility and increased teamwork in bargaining negotiations.

If approved by the 4,500 manual workforce at Ellesmere Port, the agreement would also include a continuity of supply deal, which would introduce scope for increased conciliation in disputes and, providing both sides agree, the possibility of going to arbitration.

Both Vauxhall and the unions are optimistic that the deal will make Ellesmere Port a favourite to win the plant for V8 executive car engines.

However, their hopes are clouded by their failure to agree a deal on the separate issue of a pay deal for all 9,000 manual workers employed by Vauxhall.

Union leaders will meet this week to decide on how to intensify their industrial action campaign which has already led to a series of one-day strikes.

Mr Bruce Warman, personnel director, said the company had kept the two issues separate but the pay dispute would not have a favourable impact on General Motors when it made its decision on where to site the engine plant.



MORE than five tonnes of ivory seized over the last two years by the Customs and Excise may be burned in a spectacular gesture towards the campaign to save the endangered African elephant, PA reports from London.

A Customs officer (above) stands with some of the hundreds of tasks - equivalent to 500 dead elephants - stored in bonded warehouses at Heathrow and Gatwick airports.

The stockpile, worth more than £630,000, cannot be auctioned to raise funds for wildlife conservation since Britain is committed to the global ban on ivory trading.

Hong Kong merchants have by far the largest stockpile of ivory in the world, an estimated 670 tonnes, enough to keep the trade going for 10 years or more.

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# Labour says water sell-off will cost £3.3bn

By Ralph Atkins and Andrew Hill

LABOUR has launched a fresh assault on the Government's water privatisation with a report today putting the cost to taxpayers of the sell-off at more than £3bn.

Its estimates, based on an accountant's study, come as government figures show that 250,000 applications have been received for shares in the 10 water companies.

That compares with a total of 650,000 applications received for the last privatisation - British Steel a year ago. But 90 per cent of forms for that privatisation were submitted in the few days before the offer closed. The water offer closes on Wednesday.

Mr Bryan Gould, shadow Environment Secretary, said the net loss to the taxpayer of water privatisation would be £3.3bn - more than twice as much as previously thought and well ahead of the cost of selling the Rover car group.

He said shareholders would also be buying the water companies for less than half their price.

The report by Mr Stanley Hill, of accountancy firm Arthur Collins, shows that the £5.2bn gross proceeds of the share issue at will be offset by the costs of writing-off debt and Government cash injections.

Labour said additional losses to the taxpayer, identified in the report included £800m of additional corporation tax relief and £800m of relief from

# Four groups interested in buying New Statesman

By Raymond Snoddy

NEGOTIATIONS for the sale of the New Statesman, the political weekly magazine, are being opened up today to include four groups which have expressed an interest in purchasing it. An exclusive option on the left-of-centre weekly granted to Mr Robert Holmes & Court, the international businessman, ran out at the end of the month without a deal.

Although Mr Holmes & Court is believed to have offered between £2m and £3m, subject to seeing the accounts of the company, it is understood the New Statesman directors were not happy with the guarantee of editorial independence he offered. Mr Holmes & Court has not been rejected as a suitor but he has been told that negotiations will include other groups.

Those interested include The Guardian newspaper, although the paper declined to make a formal offer until a detailed assessment of the company's financial position had been carried out. The Guardian is unlikely to bid much for the company shares but would be prepared to put up the money needed to secure the magazine's short-term future.



# Premier farming show opens

By David Richardson

THE ROYAL Smithfield Show, Britain's premier agricultural exhibition, opens at Earl's Court today against a background of declining investment in the industry.

The Agricultural Engineers' Association confirmed yesterday that tractor sales - widely acknowledged as a barometer of financial health in farming - were down 11.1 per cent on the first 11 months of 1988.

Last year, 22,500 tractors were sold to UK farmers compared with 28,000 in 1983 and 38,000 in 1976. Forecasts suggest total sales not exceeding about 20,000 units in 1989.

Paradoxically however, manufacturers claim to be more optimistic about the future. After a rash of multinational mergers and takeovers over recent years and much rationalisation of factories and plant, they believe their industry is fitter and more efficient than ever.

The tractor industry also believes that the decline in world stocks of a number of agricultural commodities will

# Brokers say smaller building societies face bleak future

By David Barchard

A BLEAK FUTURE for small and medium-sized building societies in the retail financial services markets of the 1990s is predicted today by UBS Phillips & Drew, the City stockbrokers.

The firm's report says many smaller societies will find they lack the capital needed not just for diversification but also for investment in infrastructure to enable them to compete with larger players in the market. Those include the clearing banks and the handful of top building societies.

As a result, the concentration of the retail financial services sector into a few large groups will increase.

UBS Phillips & Drew says smaller societies are already handicapped when making investments in information technology.

Larger institutions can develop new products and services and market them to their customer bases. Banks are already making some inroads into the personal savings market by offering better savings products.

Large building societies have responded by introducing interest-bearing current accounts. These are likely, the

# Curb on greenhouse effect gas proposed

By Clive Cookson, Technology Editor

AN INTERNATIONAL system for controlling emissions of carbon dioxide, the main contributor to the greenhouse effect, through "marketable carbon permits" has been proposed by the Royal Institute of International Affairs (Chatham House).

In a report published today the institute's Energy and Environmental Programme says that attempts to negotiate effective target reductions for carbon dioxide, like those achieved in the Montreal Protocol for chlorofluorocarbons (CFC) emissions, are doomed to failure.

"Negotiations would drag on interminably and would be counterproductive because of the tactical value they would place on over-emphasising the difficulties of reducing emissions," the report states.

Instead, the institute advocates a system of giving every country a permit for carbon dioxide emissions which it can trade internationally.

"Permits should be leaseable but not permanently traded; the currency of exchange should be limited to develop-



You don't have to come down to earth till you reach Malaysia

# Opponents of Scottish nature agency attacked

By James Buxton, Scottish Correspondent

OPPONENTS of the Government's plan to split the Nature Conservancy Council and create a merged natural heritage agency in Scotland have been accused of "deliberately alarmist and misleading lobbying tactics".

Mr Roger Carr, chairman of the Countryside Commission for Scotland, said he was "appalled by the degree of distortion and ecological doom-day nonsense" directed at the national news media by interest groups and individuals.

Mr Carr said they were doing a disservice to conservation "by displaying the very insen-

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 Messrs Shareholders are hereby convened to attend the Extraordinary General Meeting which will be held on December 20, 1989 at 11.00 a.m. at the registered office with the following agenda:

**Agenda**

- Decision to change the investment restrictions of the Company, so as to adjust those pursuant to regulatory requirements for the registration of the Company as an Undertaking for Collective Investment in Transferable Securities (UCITS) in accordance with the Luxembourg law of March 30, 1988.
- Decision to amend the Memorandum and Articles of Association of the Company, to reflect such changes, namely as they relate to the corporate object for investment in transferable securities, in accordance with the law of March 30, 1988, to an unlimited duration, so the definition of permitted investments and to the investment restrictions and to conform them to necessary and useful changes pursuant to the Luxembourg law of March 30, 1988 on Collective Investment Undertakings.

The shareholders are advised that inasmuch as one half of the share outstanding is required for holding the meeting and resolutions will be passed by an affirmative vote of two-thirds of the shares present or represented at such meeting.

In order to be valid proxy forms duly completed must be received at the registered office on December 13, 1989 at 5.00 p.m. at the latest.

By order of the Board of Directors

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UK NEWS

**SDA says Prestwick monopoly should end**

By James Buxton, Scottish Correspondent

THE SCOTTISH Development Agency (SDA), the official body that works for economic regeneration in Scotland, has told the Government it should remove Prestwick airport's monopoly on transatlantic services from Scotland.

It has called for a working party to examine ways in which Prestwick can be developed as an international cargo facility.

Mr Cecil Parkinson, Transport Secretary, hopes to decide early in the new year whether to preserve Prestwick as Scotland's sole transatlantic gateway or to start an "open skies" policy for lowland Scottish airports.

Such a policy would mean transatlantic flights using Glasgow and, possibly, Edinburgh airports.

Mr Parkinson has received more than 1,050 submissions. The SDA says that if Prestwick's monopoly is preserved, no new direct scheduled services are likely to be introduced in Scotland.

Under an "open skies" policy, however, long-haul services would transfer from Prestwick to Glasgow and new ones would open.

**Student politics casts its shadow over banking economics**

David Thomas explains why a bank regarded as hero of the hour in student unions will be picketed by students tomorrow.

STUDENTS will mount a picket outside the headquarters of Lloyds Bank in the City tomorrow, just when the Bill introducing the Government's proposed student loans scheme is due to have its second reading.

On the face of it, this is rather odd since Lloyds Bank is the hero of the hour in most student unions. Last month, it broke ranks with the other three big high street banks by dropping out of talks with the Government about running the scheme, due to be introduced next September.

However, the paradox will be dispelled when the protesters outside Lloyds reveal their identity. For the picket is being planned by Conservative students angry at the coolness of Lloyds to the loan scheme.

Senior bankers are bracing themselves for a period of turbulence in the important 500,000-strong student retail market. So uncertain are they of the outcome that none will speak on the record. Yet there is considerable nervousness among the rivals of Lloyds that its stance will win a valuable marketing advantage, at least in the short term.

Protest action organised by students hostile to the scheme is likely to dwarf any counter-action among those who support the Government. Lloyds could benefit from students



Protest action by students hostile to the scheme is likely to dwarf any counter-action

and student unions boycotting its rivals: "I would have thought that they would be looking at the boycott threat and rubbing their hands with glee," said a senior executive at another bank ruefully.

Talk of a full-scale national boycott by students of any bank is regarded as premature, not only by the banks but also by the National Union of Students. Every bank is keen to stress that it has not made irrevocable decisions about its role in the loans scheme.

Ten banks, including Barclays, National Westminster and Midland, have agreed to draw up a prospectus for a Student Loans Company, to act as the central administrator of the scheme. Three banks - including Lloyds - have dropped out at this stage.

No bank will decide finally on whether to help run the loans company until after the legislation has passed through Parliament. Barclays, NatWest and Midland could still drop out, while Lloyds could still

participate - although the assumption is that the position adopted by Lloyds is final.

The NUS will try to use the intervening period to persuade more banks to follow Lloyds.

It has asked student unions to organise pickets of banks every Friday; to warn local bank managers that they could lose the accounts of individual students and of the unions themselves; and to threaten to restrict bank access to freshmen through student fairs and the like.

**BANKS STILL IN TALKS ABOUT THE SCHEME**

Barclays, Midland, NatWest, Royal Bank of Scotland, TSB, Girobank, Allied Irish Banks, Bank of Ireland, Northern Bank, Ulster Bank.

**BANKS WHICH HAVE LEFT THE SCHEME**

Lloyds, Bank of Scotland, Clydesdale.

leads with about 40 per cent: it has the largest number of campus outlets and a sponsorship deal allows it to advertise on NUS leaflets for new students. Barclays and Lloyds come next, each with about 20 per cent, while Midland is a few points behind its three rivals.

There are two unresolved questions: Will the NUS be able to sustain a substantial short-term boycott of banks participating in the scheme? What will be the medium-term impact of the loan scheme on the student market?

One precedent for answering the first question is the boycott of South Africa, which Barclays acknowledges damaged its standing among students. Barclays claims to have lifted its share of the student market from a low point of 16 per cent to 25 per cent since 1984, when it pulled out of South Africa.

While some bankers doubt whether the loan and anti-apartheid issues will have the same long-term resonance among students, there is increasing concern that the NUS could mobilise substantial numbers of students in the short term. The NUS will spend the next few months trying to convince banks that this is so. Its demonstration last week in Glasgow was well attended by about 20,000 people. A few selected student unions will from

tomorrow organise account-switching by students to demonstrate student power.

On the second question, most banks assume that participation in the scheme will become a marketing plus among students. If it will when it succeeds, in becoming an accepted part of the student financing scene.

Students will have to go to the branch of a participating bank to pick up their loan: few will make the effort to go to another bank to open an account. Offering a loan will become part of our "student package," one banker said.

Even Lloyds seems to accept this logic. Its position is understood to be that it doubts whether banks will make any money from administering the Government's scheme and that the risk of financial loss through participation outweighs the medium-term likelihood of it losing student accounts.

Meanwhile, nervousness about the short-term impact is mounting. "It was one thing when everybody seemed likely to be in, but it is another matter now that some look certain to be out," said a banker. Building societies could also be waiting and watching, he said. There is much ground to cover before the participating banks finally put their seal on the Government's scheme.

**Grant scheme for local authorities comes under fire**

By Richard Evans

THE GOVERNMENT'S new method of distributing grants to local authorities is "flawed and illogical" according to the Association of Metropolitan Authorities.

The grants, which will affect the amount of community charge people will pay in England and Wales from next April, will be based on what the Government thinks each council needs to spend. Each £1 on an authority's standard spending assessment, or SSA, means £1 off the community charge, or poll tax.

But in an analysis published today, the AMA claims to have found anomalies in the way the Government has calculated what each authority needs to spend.

The London allowance is much too low, for example, because it takes no account of the non-wage element of labour costs and higher rates and rents.

Shire counties also gain from the way SSAs have been applied to social services and education. Instead of basing spending needs on the number of elderly people living in local authority homes or using council services, the Government plans to base it on the size of the elderly population in each area.

Thus, according to the AMA, Government cash will go to south coast retirement resorts with large numbers of old people in private homes, for whom

councils do not pay or provide services. Accordingly, the proportion of the total SSA budget for social services going to the shire counties has increased by 217%.

Similarly, cash for the under-fives is based on the number of children in a local authority area, rather than the amount of cash a council spends on providing a service for them, so Gloucestershire will receive £5.3m even though it runs no nursery schools or classes.

The AMA argues that other elements of the system are farcical rather than unfair - for example, the SSA for highway maintenance includes an allowance for snow clearing, but it is based on data which show that the London Borough of Brent has more snow than Cambridgeshire and Camden more than Lancashire.

Sir Jack Layden, AMA chairman, said: "The Government promised us a simpler grant system, but this is not it. It also disproves the government claim that poll tax will result in greater democratic accountability with local residents able to see whether their council is an overspender or not."

"The size of people's poll tax bills next year will depend on these arcane assessments drawn up by civil servants, just as much as they will be affected by any democratic decision taken by their council," Sir Jack said.

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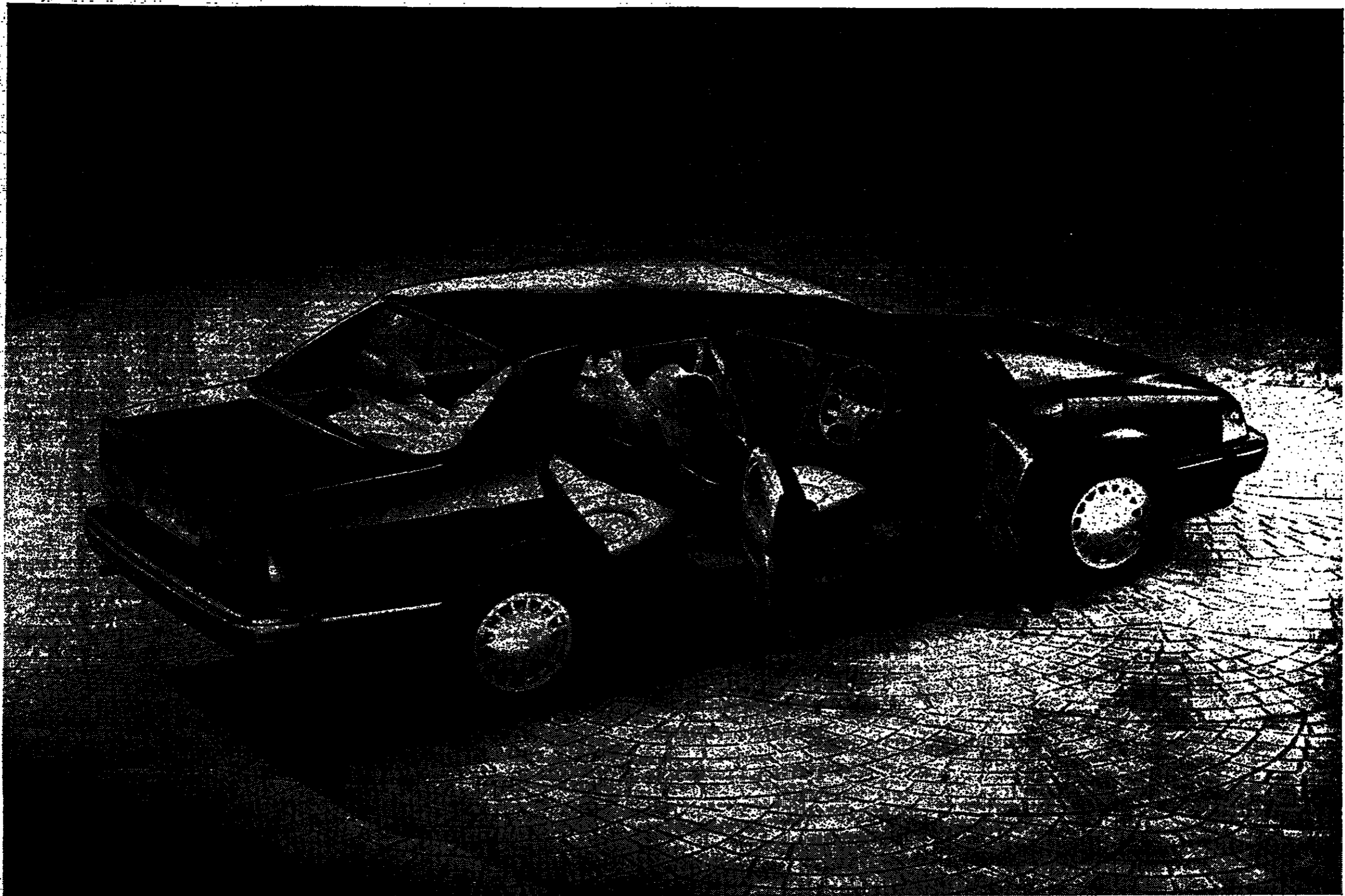
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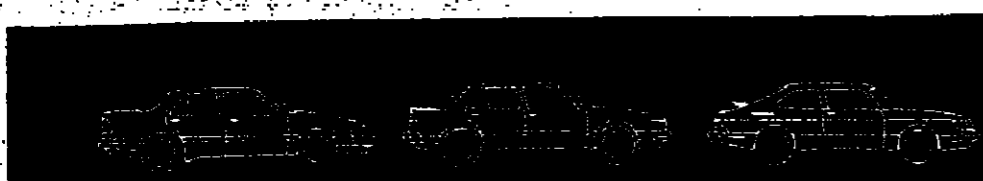
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THE AIRCRAFT MANUFACTURER

APPOINTMENTS

Executive chairman of Kingfisher

■ Sir Kenneth Durham will be retiring as chairman of KINGFISHER from February 3, the end of the current financial year. Mr Geoffrey Mulcahy will be appointed executive chairman upon Sir Kenneth's retirement. Mr Mulcahy will remain chief executive of Kingfisher, a post he has held since April 1, 1986. At the same time, Sir Nigel Mobbs will become non-executive deputy chairman.

■ Mr Jack Greener, formerly chairman of Richards Longstaff, has joined LAURENCE KEEN, stockbrokers, as a consultant.

■ PA CONSULTING GROUP has appointed Mr Paul Thornton as group marketing director. He is succeeded as marketing director, Western Europe, by Mr Colin Lessom. Mr Michael Rappolt becomes chief executive Europe, and is succeeded as chief executive, computers and telecommunications, Western Europe, by Mr Peter Copping. The appointments are from January 1.

■ B&S, a STOREHOUSE subsidiary, has promoted to buying directors: Mr Cliff Hind, housewares; Mr Peter Malby, womenswear; and Mr Brian Smith, childrenswear, menswear and accessories. Mr Steve Bedford becomes human resources director. Mr Tony Anderson, personnel director, and Mr Derek Maynard, property director, are resigning.

■ Mr Hugh McCoy has been appointed deputy chairman of H. CLARKSON & CO. Mr David Horne and Mr Rory Maclean become directors.

■ Mr Pat Burbidge has been appointed managing director of HUNTER HOMETEX. He was sales and marketing director of sister company Hunter Building Products.

■ Mr Paul Clarke, analytical instruments division director, and Mr Rick Gaskin, physical measurement division director, have been appointed to the board of ROTH SCIENTIFIC. Dr John Burnicz has been appointed managing director of Roth Industrial Instruments. Mr Colin Whyld, an executive director of Roth Group, has resigned to pursue other interests.

■ Mr Peter Bradley has joined BRITISH AIRWAYS as business centre manager to the airline's retail and leisure divisions. He was technical director with ABC International.

■ Dr Malcolm Aikin has been appointed a principal of DAMES & MOORE INTERNATIONAL.

■ Mr Rupert Clarke has been appointed to the main board of the MORGAN GROUP. He is a director of subsidiary Woolgate Property Finance, and of The Retail Group.

■ Mr Bill O'Neill, managing director of News International Newspapers, a subsidiary of NEWS INTERNATIONAL, has been appointed senior vice president/human resources, News America Publishing Inc. He is succeeded by Mr August Fischer, general manager. The appointments are from January 1.

■ Mr Kenneth Jacques has been appointed chairman of the ICSA/MSL Partnership, jointly owned by MSL International and the Institute of Chartered Secretaries and Administrators.

■ Mr Peter A. Greenwood has been appointed to the group board of SIDDALL & HULTON. He is managing director of subsidiary Sidhill Care, Halifax.

■ Sir Keith Bright, deputy chairman of Electrocomponents, has been appointed to the board of MANAGEMENT FIRST.

■ HOGG ROBINSON & GARDNER MOUNTAIN has appointed Mr Nigel Bovington and Mr David McClure Fisher to the board from January 1.



Mr Jan J. Stryt (above) has been appointed executive director of AMRO BANK CORPORAATE FINANCIE in London. He was senior vice president and head of corporate finance group, Amro Bank, Amsterdam.

■ HARVEY & THOMPSON, a retail banking group, has appointed Mr Bernard Lardner as an executive director from December 1. He was a director of Laing & Crutchbank's corporate finance division.

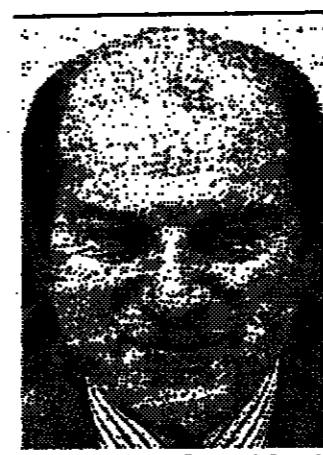
■ FINANCIAL INSURANCE GROUP has appointed Mr Charles Bellringer as finance director. He was finance director at Legal and General Financial Services, and replaces Mr Andrew Anderson who has been appointed international operations director. Mr Phil May joins Financial as group actuary. He was UK life marketing and actuarial manager of The Victory Reinsurance Co. Mr Paul Van den Heide has been appointed information technology and operations director. He was projects development and central operations manager, financial and insurance services division, Abbey National.

■ Mr Garth Bestman has been appointed chairman and managing director of ROBERT FRASER US AND INTERNATIONAL.

■ Mr Les Dunn has been appointed managing director of MARBOURN, Hartlepool, a Hanson subsidiary. He was director and general manager.

■ Mr Tim Thomas has been appointed a director of GUINNESS FLIGHT GLOBAL ASSET MANAGEMENT. He is manager of the global convertible fund and the global equity fund.

■ JOHN WADDINGTON has made the following changes. Mr Martin Buckley, main board director and chairman of the cartons, and business forms operations, adds responsibility for the UK plastic manufacturing companies. Mr Andrew Dalton, company secretary, becomes divisional chairman of the label companies. Finance



Mr Peter Gardner (above), managing director of Beaver Architectural, is joining the board of parent company KNOBS & KNOCKERS.



Dr Derek Wood (above), main board director of ALLIED TEXTILES COMPANIES, has been appointed director responsible for Joseph Lamb & Sons, and Willey & Pearson of Halifax, the group's yarn manufacturing division. He is also managing director of Balmes & Lamb Group, Bradford. The appointment follows the retirement of Mr George England.

director Mr Geoff Gibson, absorbs Mr Dalton's previous duties. Mr Richard Wade is promoted to chief executive of the self-adhesive label companies.

■ Mr Barry Bull has joined SANWA BANK's London, international finance department as assistant general manager responsible for trade finance. He was assistant general manager, International Commercial Bank.

■ Mr Alan Cohen has been appointed group managing director of GABICOL. He was merchandise director of Principles, part of the Burton Group. Mr Alex Pyles, co-founder of the company, and group managing director, is relinquishing this post in January, but will become a non-executive director.



Mr Brian R. Parks (above) has been appointed chief executive of the MACFERRON group. He was managing director of Macpherson Polymers.

NOTICE OF VARIATION TO MIDLAND INDIGO CARDHOLDERS.

Midland Bank plc announces that the interest it charges to its Indigo cardholders will be increased with effect from 11 December 1989.

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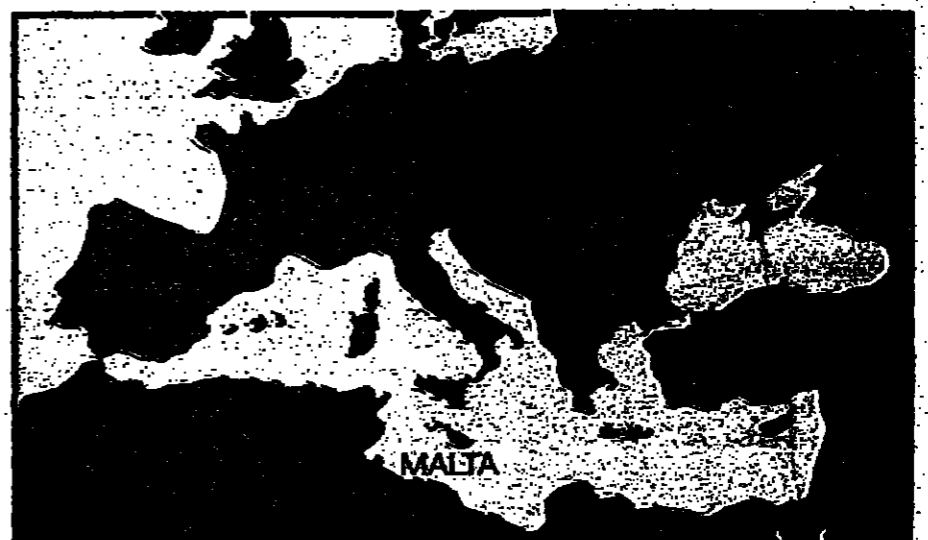
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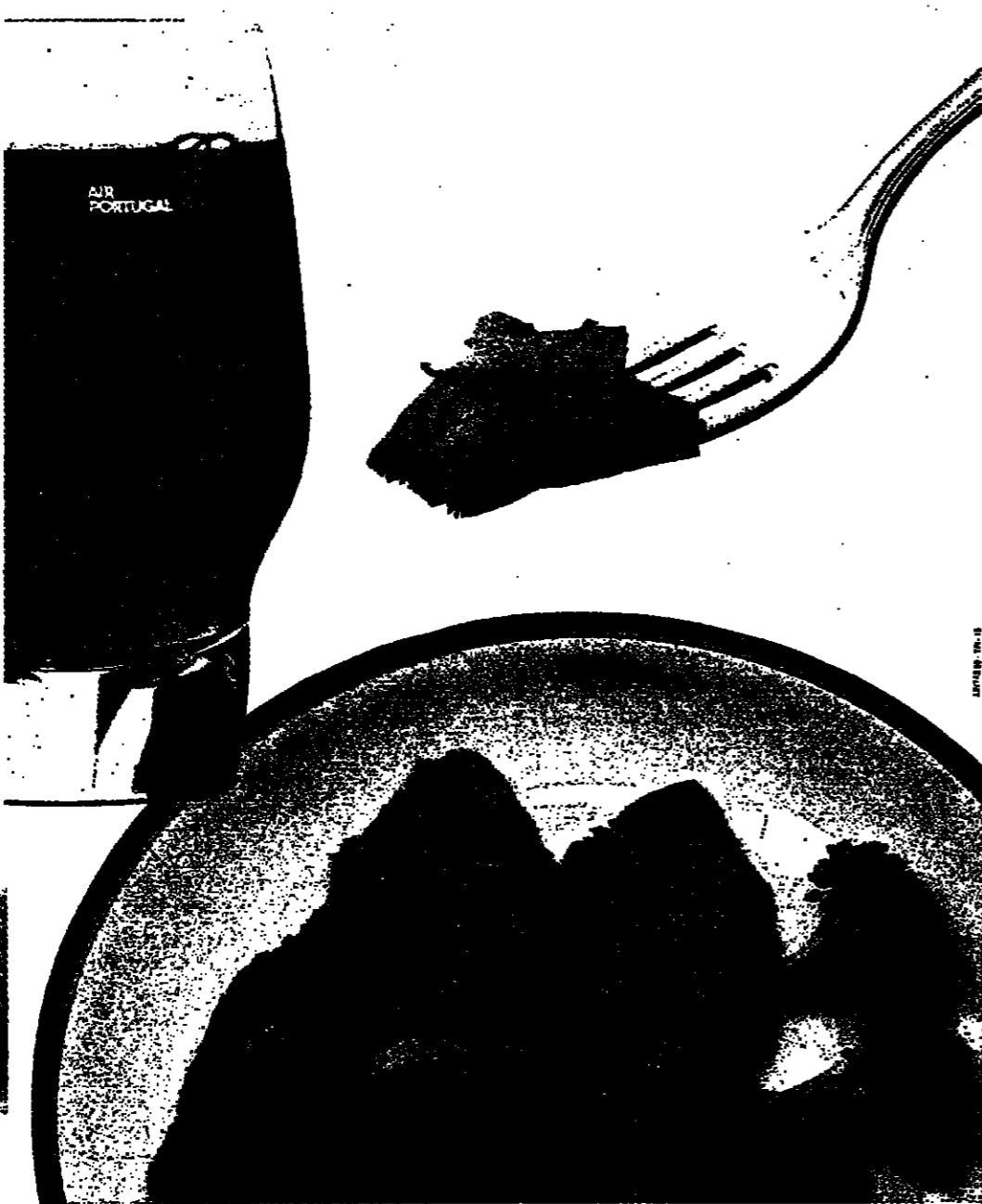
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MANAGEMENT

# The allure of manufacturing

Alan Rosling tells Michael Skapinker why he believes there is a place for MBAs in British industry

With his bespectacled, understated manner and his Harvard MBA, Alan Rosling could pass for a merchant banker at SG Warburg - which is what he used to be.

This interview, however, takes place in a meeting room filled with ladies' underwear. Rosling arrives a few minutes late. He has been talking to Marks and Spencer. "When that customer calls, you go," he says.

Rosling is chief executive of Piersons, which manufactures underwear for M and S. Piersons is a subsidiary of Courtaulds, the UK chemicals and textiles group which recently announced it would split these activities into two separate companies.

Rosling, who is only 27, gives the lie to the view that Master of Business Administration graduates cannot find employment in UK manufacturing companies. "It is not always easy to do so, but it is certainly possible. If MBAs have learned anything about

marketing they should be able to sell themselves," he says.

Rosling joined SG Warburg in 1983 after graduating in history from Cambridge. He learned a lot there, he says, but was frustrated at just being an adviser. "You were doing important work, but the only way you could actually make things happen was by being part of the management of a company," he says.

To prepare himself for a role in management he decided to go off to Harvard for two years. "A number of people advised me strongly that the only way to make the transition to management was to be a manager," he recalls. Nevertheless, he thought he would benefit from an MBA.

At the end of his first year, he decided to get his first management experience by working for the subsidiary of a British company in the US. He wrote to 30 UK companies. None of them could offer him anything. The Boston Consulting Group could: a three month job in its Chicago office.



This is precisely the sort of experience that persuades some MBAs that they would be better off in consulting or financial services than in industry. Despite this setback, his summer with BCG only strengthened Rosling's determination to become a manager. "I was only there for a short period and I didn't see the fruits of what I was working on. I think it's very difficult to be a good consultant unless you've worked in the kind of environment your clients are working in."

At the end of Rosling's time at Harvard two British companies, Burton and Chloride, expressed an interest in

employing him, but neither approach came to anything. He came back to the UK and wrote to 30 companies. Some didn't reply. Others wrote to say they had no openings for someone with his qualifications, something which he says he can understand.

"From their point of view you must remember that my background was not the traditional management background they were looking for," he says. "You can understand why an organisation might think 'this is a person who doesn't fit in.'"

About ten of the companies asked him to come for interviews. Courtaulds, whose chairman Sir Christopher Hogg is also a Harvard MBA, offered him a job as business development manager, textiles. He did the job for six months before becoming head of Piersons in May this year.

As chief executive he is responsible for 700 employees and four factories. He has an executive team of eight reporting to him. All are older than

he is. None has an MBA. How did they feel about working for someone with no previous management experience? "I think they were rightly wary. Now, I hope they no longer think about it," he says. "I talked to each of them about potential problems, both at the start and as anything arose. You've got to be totally open about your lack of product knowledge and experience."

He is trying to introduce a more open and more participative management style to Piersons. He has gone round all the factories and made presentations to employees in groups of 20. He has already seen that it will take a long time to change attitudes in the factory. Some employees are sceptical because they have heard too many promises in the past. Others believe managers should be figures of authority rather than people who try to encourage participation.

"There was nothing that I learnt on my MBA that makes it easier for me to do what I'm trying to do. There's no way of



learning how to do this except to do it."

What, then, can he contribute? "I come with a completely different perspective. I bring a conviction that change is possible." He believes his executive team shares his goals. "We started off realising that nothing was going to change unless

management did. The way we treat people has got to be the starting point."

He rejects the view that manufacturing companies cannot provide MBAs with an interesting career as consultants. "There's nothing more stimulating than general management. You're dealing with

problems from a cleaning lady who's had an accident, to a walk-out to a product launch."

MBAs do have to accept a lower salary to work in manufacturing. They also have to accept that they have a lot to learn, he says. "Some MBAs have an inflated view of what their first job should be. I think some of them also don't work at finding a job. They expect companies to come to them. I think a number of industrial companies have had bad experiences of MBAs, of people who think they have the answers and can do everything immediately."

"But if you want to go into manufacturing you can do it. It seems to me that manufacturing companies employ people not because of the qualifications they've got but because they think they're going to do a good job."

Rosling thinks there would have been advantages to being a consultant. He would have been able to travel more, for example. But there are other experiences he would not have had. He remembers the time a Piersons factory machinist followed him into the car park to thank him for what he was trying to do. "You wouldn't get that if you were a consultant," he says.

# CMB's pioneering venture in the desert

Maggie Urry explains the intent to create a cohesive team from a merged group's top managers

When two companies merge the job is often still visible years later. People are labelled as former Company A men or Company B men; the cultures still clash.

When Carnaud and Metalbox Packaging decided to merge, to form CMB Packaging, Europe's largest packaging group, both sides were determined that would not happen. Even before the deal went through - and despite a last minute hitch which could have resulted in the whole thing being called off - the people who were to form the top management level of CMB set off on an adventure together. They spent a week in Jordan, the first three days in the desert, and the next four in a hotel discussing and drafting CMB's targets and ideas.

The idea was to build a team, breaking down loyalties to the previous two companies - the UK-based Metalbox Packaging and the French Carnaud - and forging a new loyalty to CMB. The team spanned different nationalities since the group covers most European countries and the US.

Mike Kirkman, director of management and organisation development, admits that

"team building" exercises are common, but points out that most companies send existing teams on them - not entirely new ones. Further, CMB was to have an unusually "flat" management structure. This meant that a large number of people - 28 - were to form the "group managers network", called the GMN, which is the top management unit immediately below the formal board.

These 28 people, from six different countries, met for the first time as a group only two weeks before the exercise was due to begin, when they were invited to join the senior management team. The merger inevitably meant that some people were changing their jobs, and many did not know what their new roles would be. When they set off together for Jordan the company had still not even been formed. Kirkman says the reasons behind this were that they knew once the company was formed people would be busy, and that they wanted to "hit the road very fast". As a result

CMB was able to get 90 per cent of the organisation sorted out within two days of the company's formation at the end of April, Kirkman says.

Kirkman says Jordan was chosen partly because it was "available", and, more importantly, because none of the 28 had ever been there before. Kirkman says Jordan is "a fascinating, fabulous, beautiful place" and people's natural response was to turn to each other to share the new experience. This would bind them together for the future.

On arrival each of the team was issued with a sea-green jogging suit and beige anorak, to emphasise the common aim. For three days the 28 drove through the desert in jeeps, with four or five to a jeep, and planned to change round so that each person spent time with each other person.

Exercises were planned to help people get to know each other. Throughout, discussions centred on CMB and how it would operate, but in an unforced manner.

Heavy symbolism pervades descriptions of the trip, much of which followed in the footsteps of Lawrence of Arabia. Like the formation of CMB, it was a journey into the unknown.

When night driving through a desert the managers discovered it was difficult to follow the jeep in front because of the dust thrown up. Instead the leading jeep had to make sure that the one next in line was keeping up. From that, Kirkman says, the managers could learn a lesson about solidarity.

Kirkman says that the things normally designed into a team building adventure happened naturally. The guide got lost, one team wandered across an artillery range, jeeps suffered punctures, it rained hard, camel and horse riding was attempted - and someone fell off a horse. People slept in tents, ate round a camp fire, swam in the Dead Sea, and walked into the ancient city of Petra in the early morning.

In Petra a photograph was taken of the 28. Instead of the usual dull picture of besuited executives lined up, the group assembled on ancient steps in the upside-down pyramid which symbolises the group's structure. Wearing their jogging suits, they held hands "to demonstrate what a network means."

The group has a highly decentralised structure and, says Kirkman, the photograph symbolised the absence of hierarchy and lack of a stiff and starchy culture. Further, in the picture "you cannot tell who is from Metalbox and who from Carnaud, who is British, who is French and so on," Kirkman explains.

After the time in the desert, the group returned to Amman where three days were spent in a hotel working on CMB's visions and plans. Helped by Alain Gauthier, a consultant, the group discussed what CMB's goal was, where the group started from and how to bridge the gap between. Kirkman says they agreed that

"you must not lose touch with reality, but you must not lose touch with the vision."

The group drafted "the CMB Commitment" which was later sent to the entire workforce for suggestions. This is an eight point document, setting out CMB's aim to be a leader in packaging, describing the relationship it wants to have with customers, suppliers, employees, shareholders and communities, concluding with a call to "launch our group into the 21st century."

The 28 also drafted a list of basic values, which all agreed. Kirkman says the plan is that when arguments arise in future, these values can be referred to as the ground rules. For example, it was agreed that once the GMN had decided something, everyone would support the decision inside and outside the group.

During the discussions the language used was English, though Kirkman says if anyone felt unable to express a passionate view in English he was allowed to use his own

language. And, Kirkman recalls, the discussions aroused "some poetic notions from a bunch of can-makers."

The last day in the hotel saw the first meeting of the GMN when a number of appointments and organisational decisions were taken. A GMN song, to the tune of Yellow Submarine, was written and performed.

Since then the GMN has been meeting for two days a month, and in September Gauthier was invited back to see how the group was achieving what it set out to do.

Kirkman argues that had the group not gone away together the rapport which has been quickly established would not have been possible. He says a recognisable CMB culture is emerging.

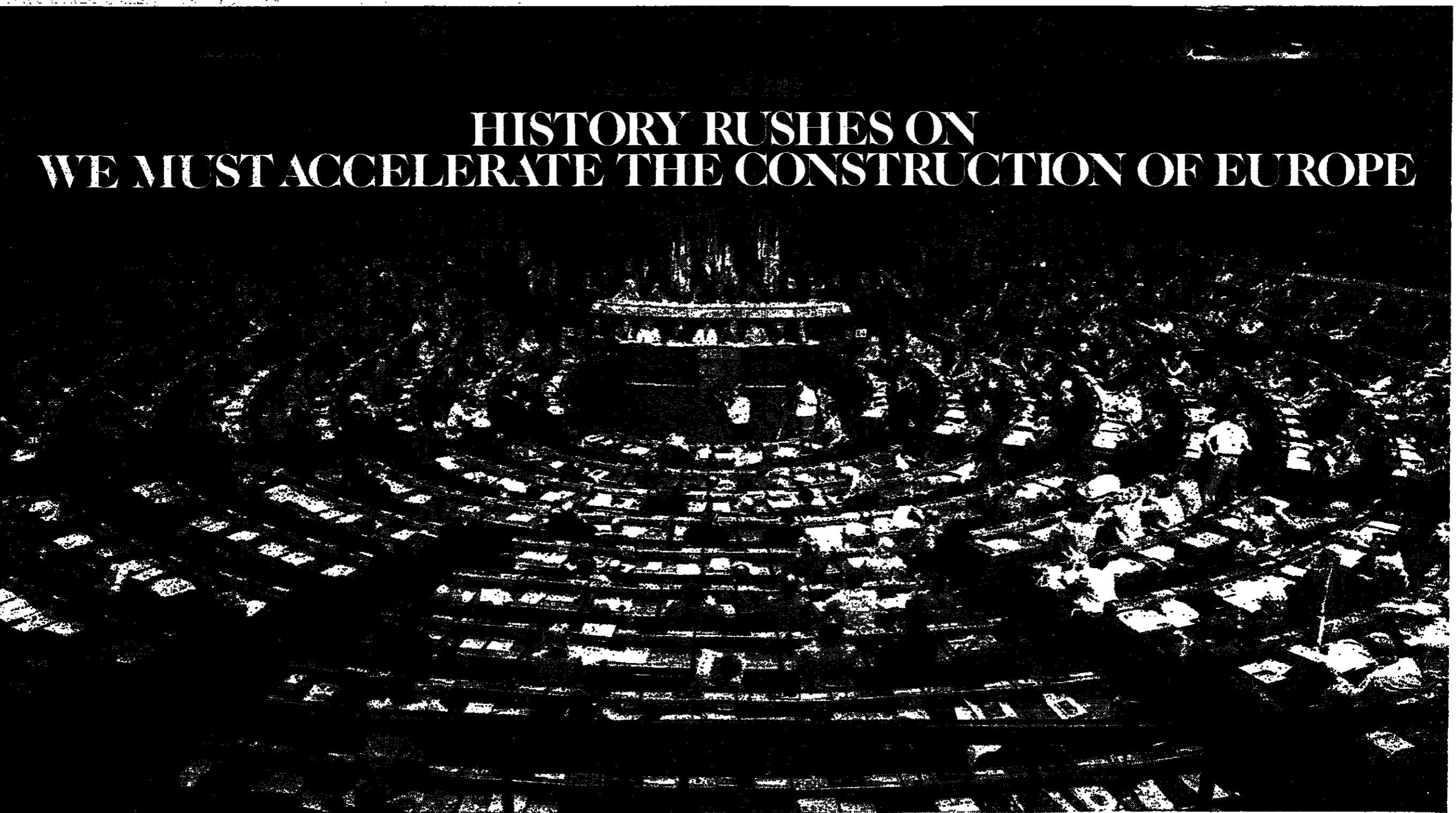
However, the exercise has thrown up one problem - what to do when a new member joins the GMN. This has already been met - Robert van den Heuvel is joining the group at the start of next year. He has neither a Carnaud nor Metalbox background, but has already remarked that his new colleagues keep talking about Jordan and has demanded to read the book about the trip produced for the 28 who went.

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FINANCIAL TIMES



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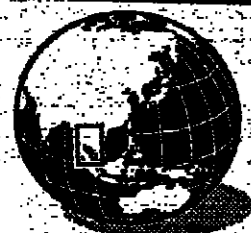
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# FINANCIAL TIMES SURVEY



The extraordinary performance of the Thai economy continues to defy belief. As Roger

Matthews reports, there is little talk of soft or hard landing. Instead, such is the momentum generated in recent years that Thais forecast continued strong growth until 2000

## Confounding the sceptics

THAILAND and its economy continue to defy gravity. While much of the industrialised world worries about hard or soft landings, Thailand remains not just airborne but still climbing and at such a steep angle that it could even achieve this year or next the accolade of the world's fastest-growing economy.

Once again many analysts and economists have this year been proved wrong about Thailand, much as they were about the previous 12 months. Last year was supposed to be when Thailand hit the wall. It did not seem possible, to most non-Thai forecasters, that 11 per cent growth could be squeezed out of an economy with such an overstretched infrastructure. And if it did not seem possible last year, then 1989 certainly had to be a year of consolidation, of a more comfortable 5 per cent to 7 per cent growth.

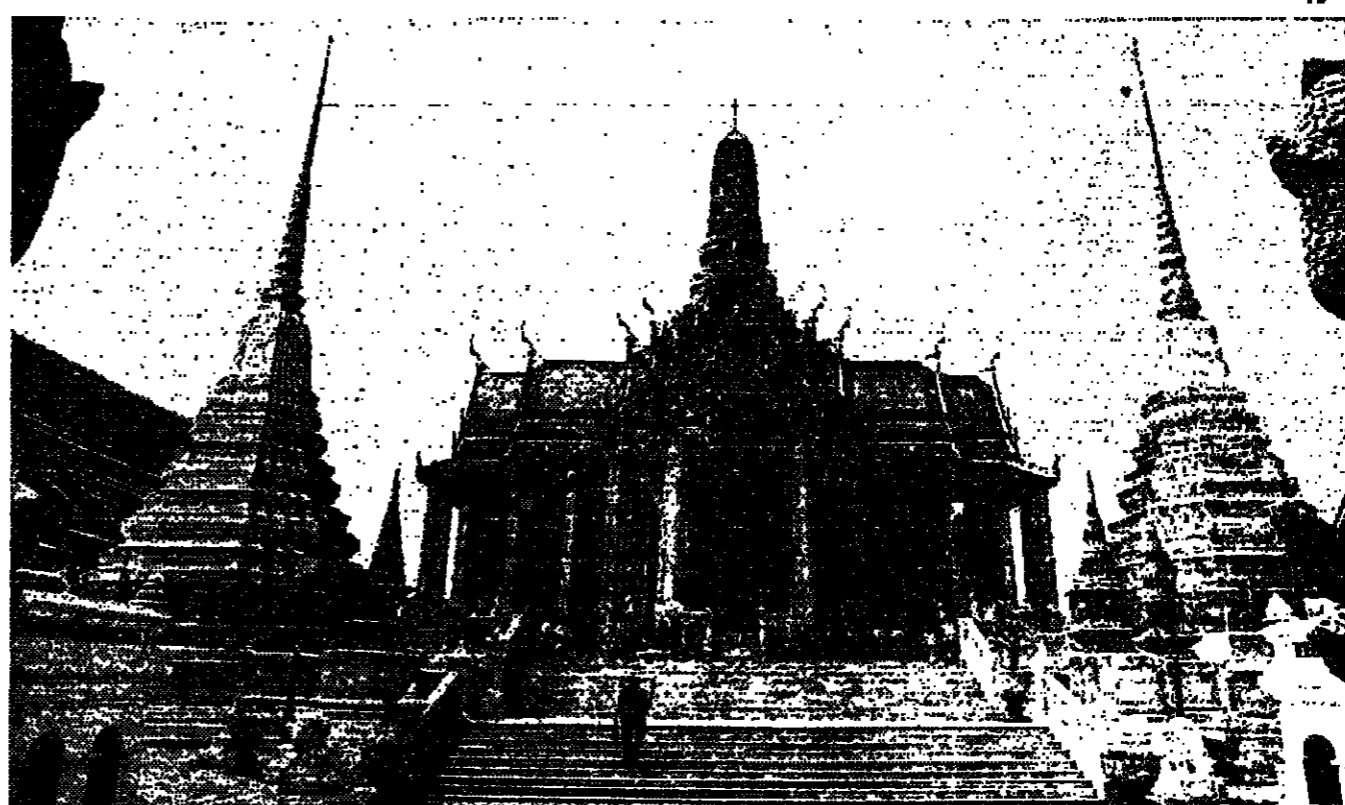
Instead, latest forecasts are for another year of double-digit growth in gross national product and predictions for 1990 are already in the 9-10 per cent range which should put Thailand beyond the reach of most competing economies, even those in Asia. During the life of the sixth five-year plan, which

concludes in 1991, it is being confidently predicted that annual growth will have averaged close to 8.5 per cent, an extraordinary achievement.

It has also helped to create a platform and a momentum which most Thai planners believe will keep the economy moving ahead strongly until 2000, albeit at a slightly more modest rate of around 7.5 per cent a year.

Thailand may be fortunate in that ideology plays a minor role in national life. The country changes governments but not systems, allowing a continuity of policy and attitude tempered mainly by individual style. During the latter part of the 1970s and for most of this decade, under the rather austere premiership of General Prem Tinsulanonda, ministers and politicians followed broadly the macro-economic guidelines provided by the often western-educated intellectual elite of the civil service.

It was to Thailand's credit that in August 1988, a popularly elected prime minister took charge of government for the first time in more than 12 years, but at the same time it has imposed new strains on the delicate four-way balance between monarchy, military,



Temple dancers (above left) and the temple at the Royal Palace in Bangkok: such attractions have proved a boon for the country's tourist industry, which is now by far the largest single source of foreign exchange

# THAILAND

politicians and civil service.

The present government coalition under General Chatchai Choonhavan, in spite of cynical warnings that during its presumed brief existence the cabinet nest would become the best featured in modern Thai history, initially dumbfounded its critics. It proved popular, relatively sure-footed, and not overly rapacious.

However, latterly it has appeared to lose its sureness of touch. In early November, General Chatchai was at first dismissive of the awful impact of a typhoon which hit the south of the country, but with the death toll rising towards 500 was forced to recant, pay a belated visit to the worst-hit areas, and then to postpone a high profile foreign trip to the US. His initial indifference to the disaster provided a field day for his critics and for those who are assumed to covet his job such as the army chief, General Chavalit, who regularly stirs the political pot with talk of his impending retirement from the military.

This prime ministerial gaffe came hard on the heels of a setback for General Chatchai's highly individualistic foreign policy which, with a resumption of fighting in neighbour-

ing Cambodia, looks increasingly unlikely to deliver his stated ambition of transforming Indochina from a battlefield into a trading zone, with Bangkok as its hub.

General Chatchai's courtship of Mr Hun Sen, the Vietnamese-backed Prime Minister of Cambodia, which was opposed both by much of his own Foreign Ministry and by several members of the Association of South East Asian Nations, may, according to his detractors, have played directly into the hands of Vietnam and thus further delayed any prospect of a durable settlement in Cambodia. They complain that the wrong signals were sent to Hun Sen and Hanoi just at a moment when continued international pressure might have persuaded them to make real concessions to the non-Communist Cambodian resistance.

Thailand, meanwhile, also allows its territory to be used for the supply of mainly Chinese weaponry to the Khmer Rouge, Hun Sen's most avowed enemy. Its recent successes on the battlefield have aroused some of the western world from its slumber as to the reality and hypocrisy of the international politics surrounding

the Cambodia issue.

Thailand's support for the unpopular military regime in Burma is similarly based on this dual consideration of where Bangkok's commercial and political interests best lie. In the case of Rangoon, the Thai government would not want to see the civil strife leading to a refugee problem rivaling that on the Cambodian border, while at the same time it is not difficult to appreciate the benefits being generated by the forestry and fishing deals extracted from a near-bankrupt Burmese regime.

But, just as the international investment community appears largely to have discounted whatever threats are posed by Thailand's neighbours, so too does it appear to have discounted what seems to the non-Thai eye as the huge domestic structural adjustments which will have to be made.

Bangkok and its surrounding provinces are an example. To the blinkered westerner it is congested, polluted, overcrowded and crying out for an immediate ban on further development. To some Thais it is still an under-utilised facility. Not entirely tongue-in-cheek, one economist

pointed out that there are still large areas of Bangkok pavements which do not support entrepreneurial activity. While the traffic is appalling, motorists have yet to explore all alternative routes.

Such attitudes help to explain why Bangkok and its environs now produce 50 per cent of Thailand's GDP and why, in spite of efforts by government promotional agencies to attract new industries to other parts of the country, the regional imbalances are continuing to widen.

For those who insist on pigeon-holing countries, however misleading the exercise, it is arguable that Greater Bangkok with a GDP per capita of about \$2,600 has already achieved the status of a newly industrialised country (NIC). For the rest of this newly agro-industrialised country, the picture is far different. The north-east, for example, which is home to 35 per cent of Thailand's population, has a per capita GDP some 630 per cent less than that of Bangkok. For those people, talk of NIC status is laughable and will be for a very long time to come.

These statistics also help to illustrate how challenging it will be in the 1990s for Thai-

land to narrow the skills gap which is fast emerging. Given that some 66 per cent of Thai employment is in agriculture and that many farmers live close to - and sometimes below - the poverty line, and that there is also a substantial body of urban poor, all too few children remain at school beyond the primary level.

It is less than one-third of the levels of South Korea and Taiwan, and half that of Malaysia. At the tertiary level the comparisons are more balanced, but Thailand's tendency to produce more arts graduates than scientists and engineers will have to be corrected if the government wants over the longer term to limit the number of expatriates being brought in by foreign companies investing in Thailand.

While the absolute number of foreign investment applications to the Board of Investment has fallen, the overall value of pledged commitments has increased. In crude commercial terms, which is how the rest of the world often seems to be viewed officially from Bangkok, events in China provided a double filip. First, revulsion at Tiananmen Square will slow the pace of foreign investment in the

semi-skilled manufacturing sector where the Chinese were beginning to set the Thais an increasingly tough challenge. Second, there is evidence that Hong Kong-based companies are more than ever looking to Bangkok as an alternative manufacturing base.

There is also a growing sense in Bangkok that, in terms of long distance running, Thailand has broken away from the Asian pack trailing Hong Kong, Singapore, South Korea and Taiwan. The momentum it has now achieved should, according to several Thai economists, take it past Malaysia quite quickly, while widening the distance with Indonesia and the Philippines to such an extent that their comparative wage advantages will be of much less importance.

The danger, of course, is that such unbridled optimism is that it creates unrealistic expectations, tempts the gambler and encourages the greedy. Any repeat of the 1985-86 recession, the political repercussions of which are still being felt in neighbouring Malaysia, would prove even more testing in Thailand where democratic accountability has yet to put down firm roots.

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**THAILAND 2**

**FOREIGN AFFAIRS**

**Sharp divide on the home front**



Prince Norodom Sihanouk (above) and Son Sann: opposition leaders in Cambodia whose domestic conflict has inevitably provoked increasing international focus on neighbouring Thailand



Prince Norodom Sihanouk (above) and Son Sann: opposition leaders in Cambodia whose domestic conflict has inevitably provoked increasing international focus on neighbouring Thailand

It is upon Thailand that all the forces opposing the Hun Sen government in Phnom Penh depend for their access to military and other supplies. Indeed, it has been Bangkok's policy of turning Indochina from a battleground into a market place that has offered a radical alternative to policies pursued during the past decade.

The level of interest shown by the international community has increased in direct proportion to the performance of the Khmer Rouge on the battlefield. When the long abandoned town of Pailin fell to the Khmer Rouge in October it was the signal for an outbreak of international indignation and hand-wringing as the implications of western support for the tripartite Coalition Democratic Government of Kampuchea suddenly became clearer.

Pressure immediately mounted for governments to distance themselves from the militarily dominant Khmer Rouge part of that coalition. Calls were also made for Thailand to halt the flow of aid and military equipment reaching the Khmer Rouge, which between 1975 and late 1978 had been responsible for the murder of hundreds of thousands of Cambodians.

For the Thais the greater perceived threat to their sovereignty and independence has long been the Vietnamese, and especially the post-Second World War Vietnam with its feared aims of regional dominance. The defeat of the US in South Vietnam and the drawing in of Laos and Cambodia into the Vietnamese web posed all too obvious threats to Thailand. The Khmer Rouge, however distasteful, were implacably opposed to the Vietnamese and, as ever, my enemy's enemy is my friend.

In so far as the Khmer Rouge stood between the Vietnamese army and Thai territory there was every reason to allow through a steady flow of mainly Chinese material support, just as western arms and cash transited Thailand on the way to the two non-Communist Cambodian opposition forces headed by Prince Norodom Sihanouk and former Prime Minister Son Sann. While a coalition headed by Prince Sihanouk has long been viewed as the most desired solution to Cambodia's agony, there is lit-

ing Hun Sen, General Chatichai hoped to show them the obvious economic benefits which could flow from an internationally acceptable political solution to Cambodia.

One part of that solution is now in place with the Vietnamese army having substantially pulled out, as several western nations now accept. Critics of General Chatichai argue, however, that he has largely thrown away the chance of completing the peace process. By lifting the diplomatic and economic pressure on the Cambodian and Vietnamese governments without gaining anything much in return, it is argued that General Chatichai has only encouraged Hanoi's belief that it can continue to exercise a decisive influence over Phnom Penh.

Following the recent if limited Khmer Rouge advances into Cambodia it has also allowed Vietnam to present the issue as a stark choice between their youthful protégé in Phnom Penh, Hun Sen, and the mass murderers of the still powerful Pol Pot.

However superficially valid such a choice may seem to some, several members of Asean are certain that it could not possibly provide the basis for a lasting settlement in Cambodia. Accepting Hun Sen's regime as the most pragmatic option for Cambodia ignores both the capabilities of the Khmer Rouge and, perhaps more importantly, the determination of China that Vietnam and the Soviet Union should not be the dominant influence on Phnom Penh. Equally China is unlikely to be prepared at this juncture to tolerate the loss of international face inherent in a significant reduction in its level of support for the Khmer Rouge.

It is therefore hardly surprising that there should be sharp differences of opinion within the Thai government on how best to proceed. For instance, Siddhi Savetsila, the foreign minister, has announced that as far as his ministry was concerned Cambodia was now a secondary issue while the Prime Minister has stressed that he was proceeding at full steam with his Indochina initiative.

Hun Sen, Prince Sihanouk and others all profess a belief that there will be intensified fighting over the next few months as each Cambodian faction seeks to strengthen its bargaining position for the next session of negotiations, whenever they are.

The non-Communist opposition claims that Hun Sen will be more flexible after his forces have lost more territory. The weakness of that argument is that it is most likely to be the Khmer Rouge which makes the advances and it will be that faction which is most effectively strengthened by the fighting.

But at least for Thailand there seems no imminent risk of Vietnam re-occupying Cambodia, a likelihood refuted by the policies of President Mikhail Gorbachev in Moscow and the urgent need of Hanoi to put its economy onto a sounder footing.

To this end the distractions of Cambodia should not disguise the impetus that General Chatichai's Indochina trading policy has given to commercial relations with Vietnam. Thai businessmen are to be seen increasingly in both Hanoi and Ho Chi Minh City and several joint ventures have been agreed in the past year.

A not dissimilar policy has evolved on Thailand's western border where Burma completes the loop of poverty surrounding one of the world's fastest-growing economies. Since September of last year the Burmese regime has been shunned by much of the western world for its vicious repression of the mass pro-democracy movements. Yet for Bangkok it has not been just business as usual, but a more emphatic enhancement of commercial relationships.

Thai companies have taken advantage of Burma's desperate need for foreign currency by signing extensive logging contracts, especially for teak, and by signing new agreements for its large fishing fleet to operate in Burmese waters.

Border trade between the two countries is said to be booming in part because of Bangkok's refusal to adopt a more realistic exchange rate.

There are similar reports from the Cambodian border and to this extent at least part of General Chatichai's policy seems to be paying off. Whether it will also contribute to a durable peace in the region with Thailand's neighbours at long last, getting governments they deserve is altogether more doubtful.

Roger Matthews

**Roger Matthews on an economy exceeding all expectations**

**Track record to equal the best**

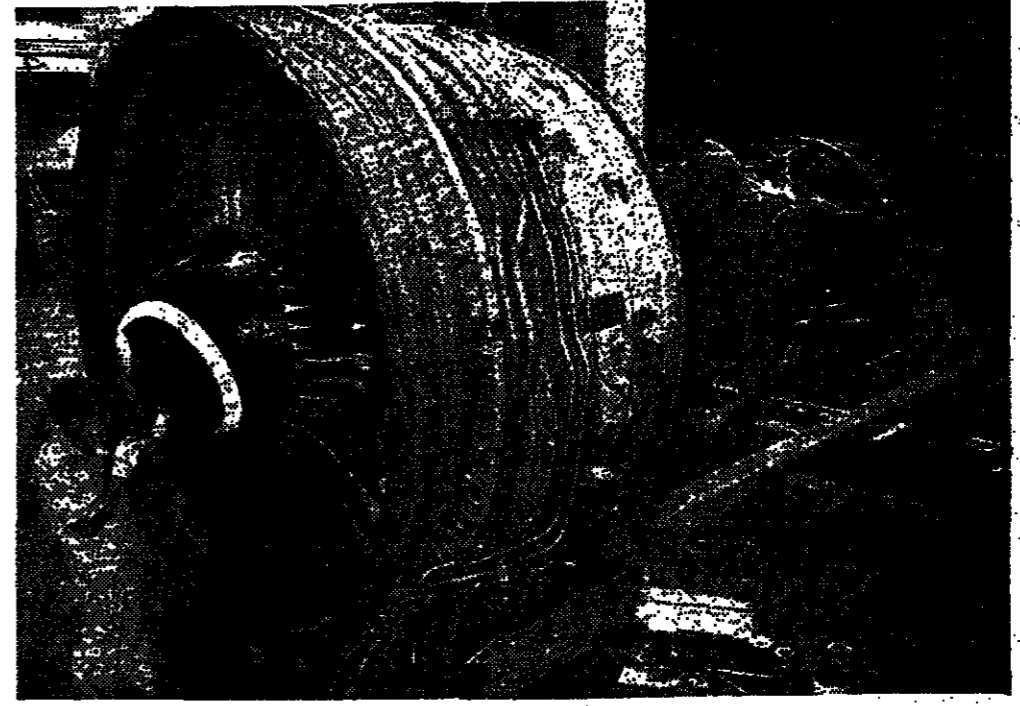
"THE Thai economy today exhibits high potential and its ability to expand is unlimited," trumpets the research department of Bangkok Bank in its latest assessment of the country's performance.

And that is indeed the mood of many people who increasingly sense that the so-called "golden age", more often predicted for the 1990s, may have already dawned with Thailand about to complete its second successive year of growth above 10 per cent. The hat-trick is by no means impossible.

There had been for some years a strong element of economic triumphalism among a small band of Thai economists, but it has only been in the past 12 months or so that more traditionally cautious commentators have been leaping on to the bandwagon. The main reason appears to be the demonstration this year of the Thai economy's unexpected capacity to sustain such high growth rates.

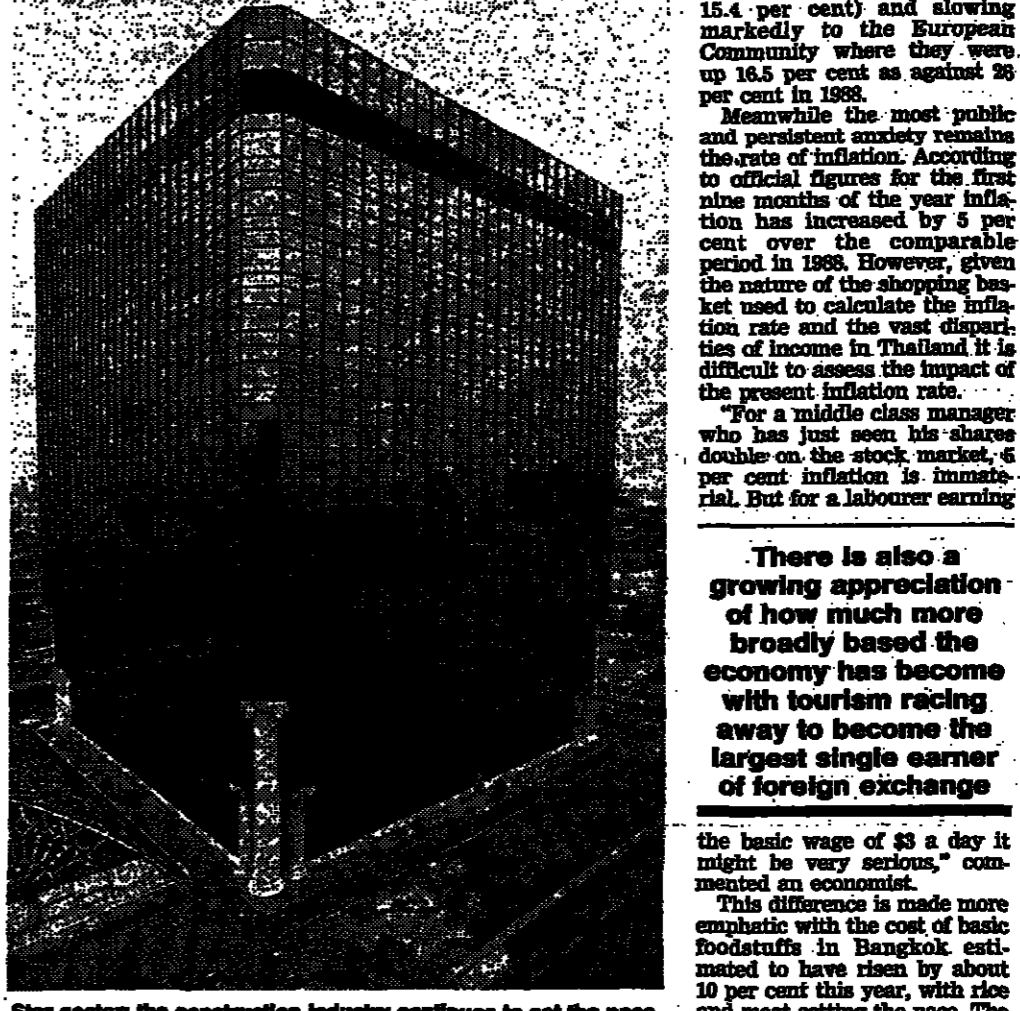
There is also a growing appreciation of how much more broadly based the economy has become in the past five years with tourism racing away to become the largest single earner of foreign exchange, capital flows boosted strongly this year by portfolio investment, industrial output expanding rapidly, and agricultural production rising as a result of firmer than expected prices.

At the same time the worst of the feared infrastructural constraints on development have not materialised. Congestion at Bangkok port has eased and with new facilities soon to be available the long delays of last year should not reoccur. Although the road network is inadequate traffic is still moving. Electricity power generation is just about coping with surging demand, but anxieties remain about the second half



Sustained growth: industrial output is set to increase with most factories working at full capacity

Many sense that the so-called "golden age" may have already dawned with Thailand about to complete its second successive year of growth above 10 per cent



Star sector: the construction industry continues to set the pace

of 1990. The quality and availability of telephone lines is still a problem, but does seem to be improving. It is reasonable to reach the same conclusion cannot be reached about aspects of the bureaucracy. But, overall, the past 12 months have provided confirmation of Thailand's capacity to squeeze more out of an overloaded system.

This has meant that in most individual sectors of the economy performance has matched or exceeded expectations. Manufacturing output growth appears not to have slowed in the first nine months and is likely to grow overall by about 12.5 per cent with most factories working at full capacity. The increased spending power of Bangkok's growing middle class is particularly obvious in the 43 per cent increase in the production of cars and motor cycles during the first seven months of 1989.

The construction industry remains all too visibly (and audibly) the star performer in spite of bottlenecks in the supply of materials and sharply rising land prices, particularly in Greater Bangkok.

On the evidence of the first six months, construction growth should be close to 20 per cent for the full year. In the period until September, production of steel rods had jumped 37 per cent over the corresponding period in 1988, while cement production was

15.4 per cent) and slowing markedly to the European Community where they were up 16.5 per cent as against 26 per cent in 1988.

Meanwhile the most public and persistent anxiety remains the rate of inflation. According to official figures for the first nine months of the year inflation has increased by 5 per cent over the comparable period in 1988. However, given the nature of the shopping basket used to calculate the inflation rate and the vast disparities of income in Thailand it is difficult to assess the impact of the present inflation rate.

"For a middle class manager who has just seen his shares double on the stock market, 6 per cent inflation is immaterial. But for a labourer earning

the basic wage of \$3 a day it might be very serious," commented an economist.

This difference is made more emphatic with the cost of basic foodstuffs in Bangkok estimated to have risen by about 10 per cent this year, with rice and meat setting the pace. The government has pledged to hold inflation at the 5 per cent level but it faces an uphill task.

For a start world inflation is likely to push up the price of Thailand's imports next year, while what has been happening locally in the construction industry - with demand for materials outstripping supply - may be repeated in other areas of the economy with much the same consequences for prices.

Depending on what happens to world oil prices there could also be more pressure on the already depleted special fund Thailand has to cushion the impact of rising hydrocarbon costs. Any increase in petrol prices would not only be unpopular, it would inevitably be passed on in many different guises to the consumer.

However, for the moment, forecasters appear to believe that inflation can be contained within the 5 per cent-6 per cent range, and for so long as real growth is around 9 per cent-10 per cent, there should not be serious adverse political or economic effects and thus no need for anything more than fine tuning by the government.

There is also a growing appreciation of how much more broadly based the economy has become with tourism racing away to become the largest single earner of foreign exchange

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THAILAND 3

Peter Ungphakorn on a PM accused of ignoring domestic troubles

Peter Ungphakorn reports on the battle over monetary affairs

# Casual approach backfires

# Open dissent as dispute over interest rate policy worsens

In November, Typhoon Gay devastated broad strips across the southern peninsula of Thailand and the country's first elected Prime Minister in more than a decade, General Chatchai Choonhavan, walked into a storm that could mark a turning-point in his government's fortunes.

Hundreds died, thousands were left homeless, and entire rubber and coconut plantations were flattened. As relief operations began, General Chatchai was seen on television visiting his north-eastern constituency of Nakhon Bhatthasime, taking delivery of a multi-million Baht luxury coach manufactured locally, that he had for himself.

His first visit to the disaster area, a day later, was to a district that had only suffered minor damage. On camera, he played down the seriousness of the situation. Fewer people had been killed, he said, than in the murderous floods a year earlier that had sent logs - many killed illegally - ripping down mountainsides and through the villages below. So, there was little to worry about, General Chatchai said, adopting the "no-problem" response that has been the hallmark of his public comments.

The next day, thousands of bereaved and homeless southerners demonstrated spontaneously on what was left of the main highway, blocking another traffic a military relief convoy led by the wife of the army chief.

General Chatchai was summoned to the palace in Bangkok for an audience with King Bhumibol Adulyadej. What transpired is not known. But subsequently he cancelled an important visit to the US and made several more effective visits to the south. Some of the damage to the Prime Minister's image caused by this excessive use of his "no-problem" philosophy may have been repaired. But the episode is not forgotten, and it represents the first serious blemish in the Thai public's perception of their Prime Minister 15 months after he took office.

Critics are now starting to accuse General Chatchai and his advisers of being insensitive to domestic troubles, and preoccupied with Cambodia and other diplomatic issues. A serious rift has developed



At left: General Chatchai with China's Deng Xiaoping

icy, and although the system is freer than during the harshly anti-left period of the late 1970s, personalities and influence are the key to politics.

Voters vote according to personal contacts. They choose the candidate who is supported by their relatives or neighbours because personal connections are often the best way to solve problems with officialdom or to bring roads, bridges and wells to a community.

Candidates express their gratitude by paying voters money. Vote-buying is illegal, but rife. The same relationships extend to the national assembly and influence Cabinet appointments. Some ministers, who even admit privately that they take kickbacks, claim they are simply replenishing party funds, but they are also very rich, often from other activities of varying legitimacy. Party leaders are dependent on the party financiers, and so long as voting behaviour remains unchanged, the system will be difficult to alter.

If the military intends to seek a return to power, it would justify its actions by pointing to graft and the rising cost of living. But, although army officers still see themselves as the best equipped to run the country, the coup rumours that used to be a perennial feature of Thai politics have not been heard for months. Thai public opinion is becoming increasingly opposed to military rule.

Yet with a strong economy, public dissatisfaction with the Government appears, therefore, little more than habitual moaning, and electoral government - if not always in the spirit of democracy - is becoming increasingly entrenched in Thai society.

Income disparities could become a more serious issue, if, as appears likely, world prices of Thai agricultural exports start to fall and affect the recent rural prosperity. Quietly watching behind the scenes is King Bhumibol Adulyadej, now 82, who in recent years appears to have nudged Thailand's political leaders in increasingly stable and democratic directions. This is the obvious outcome of the electoral process. In Thailand's military dominated politics, voters have never been trusted to make choices based on pol-

the political fray with his sights set on becoming prime minister. The only doubt seems to be whether he will form his own party or join an existing one. He has been making a number of well-publicised statesman-like comments on a range of topics, including corruption in the government.

The two army television stations lost no time in stressing General Chavallit's personal role in mobilising the military relief efforts after Typhoon Gay.

General Chavallit's criticisms of corruption echo a growing concern expressed in Thai and foreign business circles, where questions are also asked about military probity. Where once kickbacks were tolerated as a form of "commission" that would have little effect on Thailand's dramatic economic growth, serious questions are now being asked about the way large government contracts are awarded and about alleged nepotism behind investment promotion or protection decisions.

Whereas the previous Prime Minister, General Prem Tinsulanonda, was reputedly clean, did not have to stand for election, and therefore could afford to curb the appetites of some of his ministers, General Chatchai is not seen as a leader capable of exercising the same restraint.

The behaviour of ministers is the obvious outcome of the electoral process. In Thailand's military dominated politics, voters have never been trusted to make choices based on pol-

between the Prime Minister and his Foreign Minister, Air Chief Marshal Siddhi Savetsila, leader of the second largest coalition partner, the Social Action Party.

In late November, Air Chief Marshal Siddhi announced he would no longer be involved in Cambodia-related diplomacy because of General Chatchai's dominating interest in the issue, and greater willingness to compromise with the Vietnam-backed regime in Phnom Penh. Other SAP Ministers are making similar disclaimers over troublesome issues that could embarrass Prime Minister's Chai Thai Party.

The typhoon episode also brings together other key elements that could be crucial for Thailand's political future: the army and the King. It suggests a weakness in the way General Chatchai is advised, a key issue for this Government which has contributed to the rift with the foreign minister. And it comes at a time when Thailand's democratic reputation could be dented because of a ban on the Asian Wall Street Journal and threatened actions against the Far Eastern Economic Review and the Economist, as well as two Thai dailies.

Another domestic concern regards the future intentions of General Chavallit Yonchayuth, the Army Commander in Chief - and Acting Armed Forces Supreme Commander.

General Chavallit recently repeated his intention to retire early. But most observers are convinced he intends to enter

BANKS are no longer big news in Thailand. In the middle of this decade, government rescues and takeovers provided running - and sometimes sensational - stories in the business pages of the newspapers.

Central bank and finance ministry officials are still watching carefully some of the banks and finance companies in trouble during those years of recession. But recent rapid expansion has eased bad debt problems.

At the end of September the banking sector had grown faster over the previous 12 months than at any time in the past five years. It expanded by about 22 per cent to Baht 1,351bn for assets and Baht 1,072bn for deposits. Lending had expanded by 24.5 per cent and net profits were up 36.2 per cent at almost Baht 6 trillion (million million).

The news is now about the battle between the Finance Minister, Mr Pramual Sabhavan, and the Bank of Thailand over monetary policy. The central bank wants to raise the present 15 per cent ceiling on loan interest rates in order to curb inflation. Mr Pramual has allowed interest rates to float on fixed term deposits but appears loath to take any action that would hurt borrowers and argues that the present rate of inflation is not serious and will soon fall.

After 15 months in a position sceptics feared might be beyond his capabilities, Mr Pramual has successfully kept government finances in rein to the extent that planned budget deficits are smaller and, by the end of the last fiscal year in September, the government actually emerged in surplus.

But Mr Pramual has revealed an impatience with dissent. As a result, Bank of Thailand officials cannot remember when relations with a finance minister were worse. Some have taken to re-reading the rule books only to discover that many areas of monetary policy and financial institution supervision that they once assumed were the independent domain of the central bank, actually require Mr Pramual's approval.

Deprived of the power to raise interest rates, the central

bank can only ask for commercial bank co-operation in curbing the growth of lending in order to keep money supply in check.

But the rift is bad news for those who believe that Thailand's present economic strength provides an opportune moment for some fundamental reforms of the banking system. The Bank of Thailand is said to have its own blueprint for reform, but Mr Pramual would have to endorse the plans and no one is in the mood to risk another row with him for the present at least.

Among the issues being discussed are: whether banks

affiliated manufacturing and trading companies are already causing concern about concentration of ownership and finance.

Either way, legislation on banks and finance company licensing would be needed. At present, for example, finance companies, many of which have stock-trading licences, can issue promissory notes, but cannot take "deposits" or make financial transfers.

One approach to universal banking would be to blur the distinction between the 29 Thai and foreign commercial banks and the scores of finance companies. Another approach

of serious trouble, to become nationalised and then merge with state-owned Krung Thai Bank) would be the most likely route. Several medium-to-small sized banks are already co-operating in loan syndication or issuing joint credit cards. But finding a suitable partner, harmonising accounts and finding the will to merge is an entirely different affair.

Although the central bank would like to encourage commercial bank mergers - and, again, the possibility of foreign banks being involved is also mentioned - some officials say that controlling families would be reluctant to give up their power.

In spite of a policy designed to diversify ownership, even Bangkok Bank and the Thai Farmers Bank remain in the control of their founding families (Soponpanich and Lamsam respectively). Meanwhile, with apparently fewer bad debts to monitor, commercial bank supervisors in the Bank of Thailand are revising rules on capital adequacy, drawing ideas from the Basic Committee's agreement reached under the auspices of the Bank for International Settlements.

Thailand has not endorsed the agreement, but officials are considering variations on the agreement's theme, including a scale of risk weightings for various types of assets instead of the present zero or 100 per cent weights, and redefining "capital" so as to include a category for loan instruments whose yields are more closely related to the bank's profit than to interest. The present requirement for capital to cover 8 per cent of assets would remain.

Also being considered are tighter consumer protection rules to cover credit card and automatic teller machine cards. Credit cards are being aggressively marketed now. But officials see little chance of legislation on any of these issues being introduced into parliament for at least a year. Across town, in the finance ministry, Mr Pramual keeps everyone guessing as to which new foreign banks will be allowed to join those already in Thailand. But Mr Pramual is not noted for his predictability.

should be encouraged to specialise; how the smaller of the 15 Thai banks can survive in a system dominated by the big four; and new rules to determine how much capital banks should have to cover risky assets.

At the end of September, out of total banking assets of Baht 1,351bn, Bangkok Bank had Baht 384.7bn, state-owned Krung Thai Bank Baht 200.8bn, the Thai Farmers Bank Baht 183.7bn and Siam Commercial Bank Baht 125.4bn.

A related question, and one that appears more often in the press now, is whether more foreign banks will be allowed to join the 14 that already have branches - usually one each - in Thailand. This has become the personal territory of Mr Pramual and questions are being asked about the criteria he is using to reach a decision. Few are willing to bet on the outcome.

The Bank of Thailand tends to favour "universal banking" because of the flexibility and diversity of operations. Many commercial bankers agree. The most difficult question is whether this would allow banks to trade in securities, an area where even those in favour of universal banking often draw the line. The close links between the banks and

### The rift is bad news for those who believe that Thailand's present economic strength provides an opportune moment for reform of the banking system

would be to encourage the finance companies to concentrate on fee-earning - rather than interest-earning - activities. Some of the larger finance companies, particularly those affiliated to the bigger banks, are already said to be poised to move into genuine retail banking, although their high profitability is mainly the result of securities trading during the recent bullish stock market.

But one of the concerns of the Bank of Thailand would be how to help the many weaker finance companies survive in the face of competition from the large banks. Merger, or takeover - perhaps with a foreign bank seeking a route to the Securities Exchange of Thailand or brownie points that might help the bank acquire a branch licence - is one favoured solution. Even without a significant redrawing of the lines, some foresee a shake-up in the next few years, at least among the lower ranks of the Thai commercial banks.

One Thai banker, for example, believes that within 10 years, and probably sooner, the number of Thai banks will have to fall because the smaller banks will not be able to remain competitive.

So long as the Bank of Thailand refuses to allow banks to fold, a merger (or, in the case

of serious trouble, to become nationalised and then merge with state-owned Krung Thai Bank) would be the most likely route. Several medium-to-small sized banks are already co-operating in loan syndication or issuing joint credit cards. But finding a suitable partner, harmonising accounts and finding the will to merge is an entirely different affair.

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THAILAND 4

Peter Ungphakorn on foreign participation in domestic economic development

# Investment slowdown just a small blip

AFTER an exceptional year in 1988, foreign investment in Thailand appears to be slowing down to more normal but still healthy levels.

In the first nine months of this year the Government's Board of Investment approved 906 projects envisaging total investment of Baht 206,760, a growth of almost 40 per cent over the corresponding period in 1988. But applications, which may take a year to process, only rose by 6 per cent in value.

Two reasons are given for the slowdown. Investors are said to be concerned about infrastructure congestion caused by economic growth in the past three years that has exceeded all expectations.

Officials point out that applications for tax holidays and other promotional privileges doubled last year to more than 2,000 projects. This year's total is expected to return to more normal trends, about 1,200 projects. In 1987 there were 1,067 project applications.

But behind the aggregates lie some fundamental changes in the nature of investment in Thailand, at least as far as projects seeking promotional privileges are concerned.

In the first nine months of this year the number of applications fell by 41 per cent to

843 projects. But their value grew by about 6 per cent to Baht 294,600.

The fastest growing category was for projects worth Baht 1bn or more. Among the applications, a larger proportion - 52 per cent as against 45 per cent a year earlier - were joint ventures involving Thai and foreign partners. The focus seems to be shifting to larger projects such as big hotels, electronics and machine parts manufacturing.

Of the applications, Japanese projects continued to lead with 150, followed by 104 European, 89 from Hong Kong, 89 US and 134 Taiwanese projects. South Koreans have started increasing their investment in Thailand as part of the relocation from "the Four Tigers," but still at a much lower level. The South Koreans are said to favour Indonesia whereas the Taiwanese prefer Thailand and Malaysia.

The Government has continued to sweeten some terms for foreign investors, including easier requirements for foreign investors, experts and technicians seeking permanent residence. But the privileges offered for projects in Bangkok and neighbouring provinces are no longer so attractive. Investors are moving further afield, some to the north and

south, more to the north-east. But the majority are heading to the Eastern Seaboard where a new deep sea port and industrial estate are under construction at Laemchabang, and a natural gas-based petrochemicals complex is coming on stream at Mah Ta Put.

After a period of austerity, the government's increased revenue now allows for more investment in infrastructure, often with greater private sector participation. By 1995, for example, the Telephone Organisation of Thailand intends to nearly double the present 2.2m lines.

The private sector could participate in port management and highway construction and operation. According to one tentative industry estimate, the size of Thailand's petrochemicals market could rise from Baht 67.5bn (6.5 per cent of gross national product) in 1988 to Baht 233.3bn (10 per cent of GDP) by 1995. The petrochemicals complex under construction at Mah Ta Put, where gas from the Gulf of Thailand is piped ashore, would be able to meet some of this demand, supplying the textiles, plastics, toy, packaging, engineering and machine tool industries.

Transformations are expected as a consequence in state

enterprises such as the Petroleum Authority of Thailand and the oil refining Thai Oil Company, private sector companies, such as the agro-industry group, Charoen Pokphand, textiles giant Saba Union and the Siam Cement Group, and multinationals such as Shell, Exxon and ICI.

The fear is that if there is a downturn in world markets the Government may not be able to resist pressure to protect domestic production. Public pronouncements clearly state that there will be no protection.

Yet, in spite of complaints about the high cost of locally assembled cars and trucks, the motor industry still enjoys protection dating back to the import substitution policies of the 1960s and 1970s. Protection is also maintained for the cement industry in spite of high construction costs.

Battles are being fought over permission to allow new investments in steel rolling and glass production with suggestions that decisions are not always based on economic criteria.

None of this seems to affect the majority of investors whose projects receive approval routinely, particularly if large proportions of production are for export.

Growing political concern about corruption does not appear to have affected investment either. Indeed, the domestic political situation has rarely been a factor in foreign investment decisions. Board of Investment officials say they are hardly ever asked questions about political stability. Investors are more interested to know about economic overheating and whether Thailand still wants more foreign capital. The Government is still campaigning for more investment and the public shows little concern for what might once have been a fear of economic domination.

Looking beyond the Eastern Seaboard the Government has unveiled plans for a "land bridge" crossing the southern Isthmus and consisting of an oil pipeline, railway and highway. The objective is to offer an alternative to the three shipping routes between the Middle East and the Far East through south-east Asia, bypassing Singapore.

The World Bank also keen to invest in Thailand and recently edged out by softer Japanese loans, is studying the project carefully. The Thai Government has asked the Bank for a \$1.5m loan to help draw up a master plan for the project which would be part of

a new Southern Seaboard Development Programme.

The 180 km link between the Andaman Sea and the Lower Gulf of Thailand would cut between 585 km and 2,700 km on routes between the Middle East and the Far East, depending on whether ships travel through the Malacca Straits or through the Indonesian islands.

The Government says that Washington has offered \$1m for a feasibility study and Japan has offered additional funding.

"Thailand is heading for a new position in world trade, moving from a traditional exporter to a new centre for world trade and international shipping," says Dr Savit Bhotvithok, director of the Office of Southern Seaboard Development.

Sceptics consider such claims a trifle exaggerated. Dr Savit supervised the Eastern Seaboard Programme which is now generating much interest in spite of fears that it was over ambitious.

But the Eastern Seaboard with its on-site production and large proportion of domestic investment is quite a different affair from a southern transportation link that would primarily be used by international shippers.



Young Buddhist monks at Dhammongkol temple at Phrakhanong; the high-rise temple boasts the works of Buddha on computer, used to train the 400 resident monks

Strong domestic demand has driven the stock market, writes Roger Matthews

# Caution urged as index rises relentlessly

ON NOVEMBER 16 the Securities Exchange of Thailand index surged through the 750 mark to confound most analysts who, although expecting a bullish year with the index kicking off at 328 after a disappointing 12 months compared with other regional exchanges, would not in their wildest dreams have predicted a nearly 100 per cent gain before the end of the year.

In part, of course, the buoyancy reflects Thailand's economic fundamentals and the appreciation domestically and internationally that the country might be capable of sustaining high growth rates for an extended period. It also reveals the weight of foreign institutional buying, but most brokers say that, above all, the market has been driven by domestic demand, in particular for shares in companies involved in the construction boom.

Dr Marney Phadoongsidhi, president of the SET, has several times during the year warned investors not to be too impressed by what he described as "fake" increases in the index, a reference to the disproportionate influence exercised by a single stock. For example, Siam Cement alone accounts for about 14 per cent of the market's capitalisation and, with the construction industry enjoying rapid growth and materials in short supply, the demand for the company's



Dealers on Thailand's stock exchange where bullish trading has reflected the country's buoyant economy. The authorities have, however, urged investor caution

shares has provided a strong impetus for the market throughout the year. It is also worth noting that Siam Cement's consolidated profits for the full year are likely to be up by about 67 per cent.

Some brokers are similarly urging investor caution as they witness shares in much lesser companies with more doubtful

managements and markets being chased up in the wake of the blue chip surge.

Apart from the universal Pled Piper effect of a bull market, Thailand is also handicapped by the relative paucity of information available to investors and by the still infant state of the research industry. It is unquestionably

improving, but in a country where until recently it was illegal publicly to advise selling a particular share, a great deal of work has to be done before standards approach those in more mature markets.

As a result the Thai investor tends to be less well served than the foreigner and this in part explains the often large

premium at which foreign-owned shares trade. "It is very simple. The foreign investor can see many things that the local can not. He may have better information about the company, about the markets it is competing in, and about its value relative to those offered elsewhere. As a result a share, which is worth Baht 500 to a Thai may well be cheap at Baht 1,000 to a foreign investor," explained a broker.

Two members of each board have personally to sign every share document, which, if it is a large issue, can amount to half-million signatures.

An extension of trading hours can also be anticipated in the new year, perhaps doubling the present two hours from 9.30am-11.30pm, together with the first moves towards a

**What is most needed to cool the overheating of the market and provide better measures of value is simply more stock**

computerised dealing and settlement system. Getting to the board at the moment requires physical bulk and traders in the most active stocks tend to be rather large men.

None of which should be allowed to detract from the fact that third quarter earnings for the 95 leading listed companies, which account for 71 per cent of the market's total capitalisation, revealed a 50 per cent increase over the same period in 1988. All sectors seem to have benefited, some more spectacularly than others. Smaller banks have generally done better than their larger brothers, while the huge surge in tourist arrivals and the consequent increase in room rates can be seen from Bangkok's number one hotel, the Oriental, where profits were up 75 per cent on a year ago.

And if the strong growth in the economy continues in 1990, corporate earnings may well maintain this year's performance with domestic demand suggesting increased interest in consumer-oriented companies. However the voices of caution are also getting louder and it may well be that a significant correction could take place before the market resumes its upward path.

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THAILAND 5

Peter Ungphakorn reports on Washington's attempts to prise open the Thai market

# US steps up pressure for more open trade

THAIS ARE surprised by the apparent ingenuity of the US in continually devising new areas of trade conflict.

In 1986 there was a US bill, eventually defeated, to limit textiles imports. In 1988 the US Farm Act introduced a rice subsidy designed to reclaim for the US world market share. In 1987 and 1988, US pressure for Thailand to tighten protection for copyrights, trade marks and pharmaceutical patents was coupled with a threat to drop Thailand from import duty exemptions offered to developing countries under the US Generalised System of Preferences.

The US partly solved the problem by signing the Berne Convention and automatically bringing American works under Thai copyright law (Bangkok had signed the Berne Convention several years earlier.) But Thai resistance on pharmaceutical patents meant GSP privileges were withdrawn from a handful of imports from Thailand.

Now, under section 301 of the US Trade Act, which threatens allegedly protectionist states with trade sanctions, Washington has placed pressure on Thailand to open its markets to US cigarettes. Thai law says Bangkok should not give way because the Americans will continue to find fresh complaints and will end up running Thai trade policy.

Government officials in Bangkok tend to prefer conciliation, arguing that many of the measures sought by the US, are, in any case, needed in Thailand. The Americans wonder what all the fuss is about. Thai exports have, after all, continued to thrive, growing an estimated 27 per cent to Baht 513bn by the end of this year, with about 20 per cent going to the US.

In spite of American competition, a strong sellers market has allowed Thailand to export a phenomenal near 6m tonnes of rice this year, way beyond last year's record of just over 5m. With statistics like that, the Americans ask, how can their quest of US protectionism and unfair subsidies?

But on the latest issue, Washington appears to be more divided than on any other. The Thailand tobacco monopoly, a state enterprise, is the sole legal manufacturer

and distributor of cigarettes. The US Cigarette Exporting Association, representing American tobacco companies, has asked the US Trade Representative, Mrs Carla Hills, to penalise Thai exports if American cigarettes cannot be sold and advertised in Thailand.

Similar moves in South Korea and Japan have succeeded in prising open those markets. Some Thais and Americans wonder how much of a market share the American companies would gain from liberalisation. US cigarettes are immensely popular in Thailand and are freely available on the black market.

US companies counter that legitimising the trade would allow the Thai government to collect in tax the extra profits the black marketers and their protectors are now earning.

But legitimising trade is only part of the campaign. The US companies are also interested in setting up cigarette manufacturing, probably in partnership with some of the powerful tobacco curers in the north. This would allow them to determine how much Virginia to import as well as giving them access to the locally grown varieties.

The Americans are also demanding freedom to advertise. The Thailand tobacco monopoly does not advertise at all. TV ads are banned but, not long ago, a travel agency bought airtime to screen cowboys galloping around in golden sunlight and to invite Thais to visit "Marlboro country" (the well-known advertising slogan for Marlboro cigarettes). Government persuasion stopped these as well as more recent and more explicit ads in newspapers.

Some, including an American lobbyist working in another product sector, believe the US demand to permit advertising is a mistake. Anti-smokers in the health ministry and elsewhere in Thailand, and on Capitol Hill in Washington, are particularly incensed.

Mrs Hill still has five months to consider the cigarette request. Meanwhile, the US has kept Thailand on a "priority watch list" under Section 301, threatening trade sanctions if it fails to provide patent protection for new pharmaceutical products. Bangkok has agreed to do so but has

asked for more time - about two years according to the latest offer - than the Americans are willing to accept.

The Thai insistence on framing the law according to whatever principles are to be agreed in the Uruguay round of multilateral trade talks would also provide inadequate protection in Washington's eyes. The Japanese, in particular, and the Europeans are watching developments with interest. While complaining that Section 301 runs counter to the multilateral principles of the General Agreement on Tariffs and Trade, the Japanese and Europeans stand to gain in Thailand from US aggression.

Meanwhile, the Japanese have given up wondering why the anti-Japanese sentiments

of the 1970s have not re-emerged. They are content to leave Thai resentment focused against the Americans. The Japanese have also been buying a larger share of Thai goods as well as supplying companies in Thailand, many of them Japanese, with more components and machinery.

The diversity of Thai export markets and products, compared with those of other South-east Asian countries, has been the basis of the country's export-led growth. Manufactured goods go to industrialised countries; rice to China, the Middle East, Africa and Hong Kong; feed cereals and substitutes to the Koreans and the European Community.

As Thailand enters the 1990s, adjustments may have to be

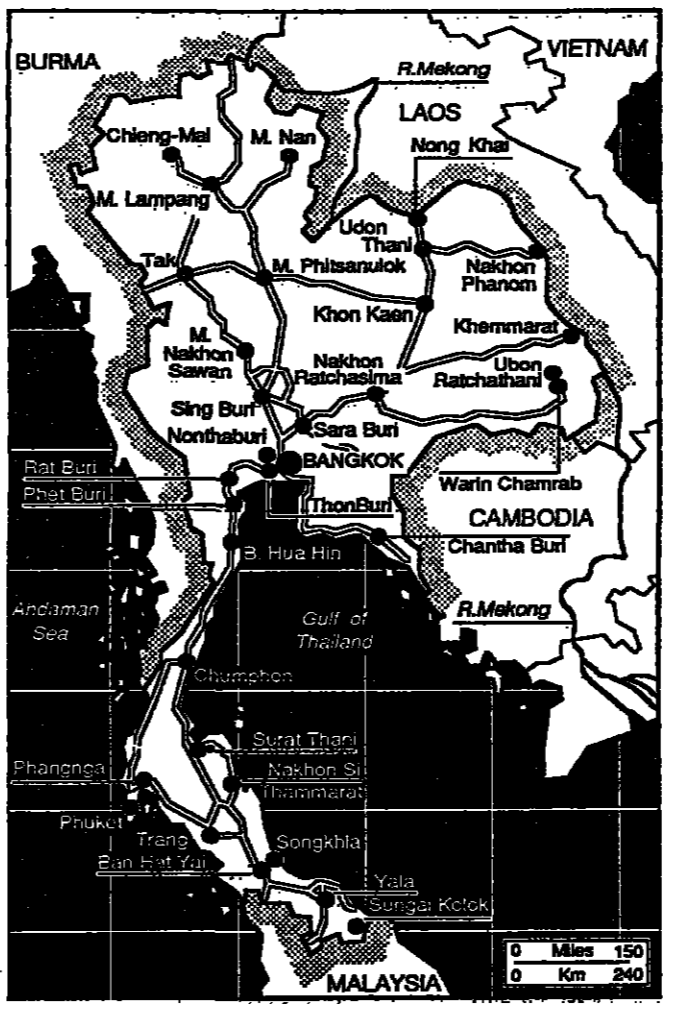
made for weaker rice, tapioca and maize prices as world supply and stocks recover. Preferential trade with fellow members of the Association of South East Asian Nations (Asean) - Brunei, Indonesia, Malaysia, the Philippines and Singapore - shows signs of increasing after years of insig-nificance.

Thais are eyeing with interest the prospect of being able to increase trade with economically reformed eastern Europe. Peace and economic reform in Vietnam, Cambodia and Laos could achieve Prime Minister Chatichai Choonhavan's hope of turning "the battle fields of Indochina into a market place."

Thailand is actively working to strengthen the multilateral

Gatt trading system through the Uruguay round and as a member of the 14-nation Cairns group of agricultural exporters supports considerable reductions in farm trade barriers and subsidies.

But just in case the world degenerates into warring trade blocs, Thailand and Asean have cautiously agreed to join the US, Canada, Japan, South Korea, Australia and New Zealand in a round of talks that would lead to the Asia-Pacific Economic Co-operation (Apec). For the time being no one wants to see Apec turn into a battleship Pacific to combat fortress Europe, so co-operation will be technical rather than an exchange of trade preferences. However, no one is taking risks.



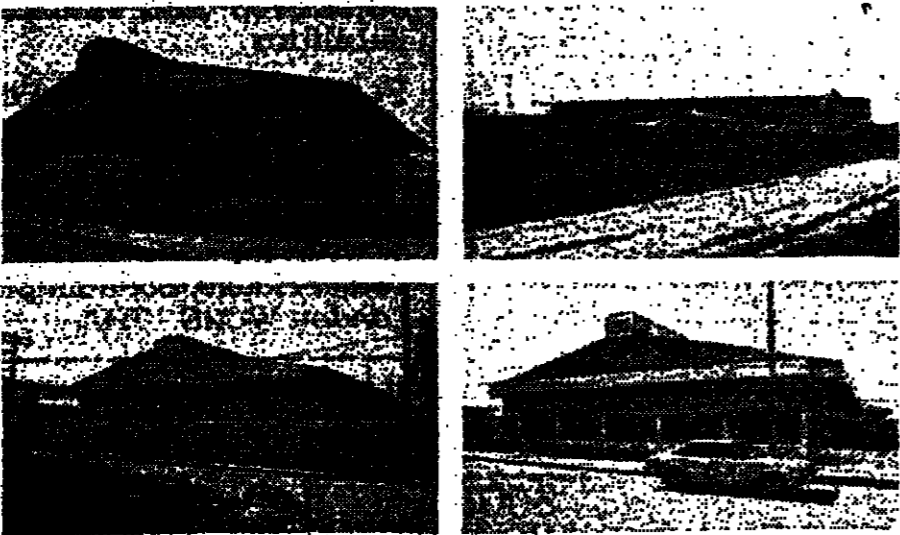
### Key facts

Area: 514,000 sq km  
 Population: 53.5m  
 President: General Chatichai Choonhavan  
 Birth rate: 1987 25 per 1,000; 1988 41 per 1,000  
 Urban population as % of pop: 1987 21 %; 1988 21 %  
 Average of lower-middle income countries: 1987 51 %  
 Population per doctor: 1984 6,250; 1988 7,160  
 Average of lower-middle income countries: 1984 3,330  
 Percentage of 12-17 year-old age group in secondary education: 1986 29 %; 1988 14 %  
 Average of lower-middle income countries: 1984 51 %  
 Percentage of 22-24 year-old age group in higher education: 1984 20 %; 1988 2 %  
 Average of lower-middle income countries: 1984 17 %  
 GDP per capita: 1987 \$366  
 Average of lower-middle income countries: \$1,200; Malaysia \$1,810  
 Real GDP growth: 1988 11 %; 1987 7.1 %; 1980-87 annual average 5.6 %  
 Inflation: 1988 3.6 %; 1987 2.6 %; 1976-88 annual average 6 %  
 Merchandise exports: 1988 \$15,781m; 1987 \$11,585

Merchandise imports: 1988 \$17,856m; 1987 \$12,018m  
 Current account balance: 1988 \$-1,671m; 1987 \$-358m  
 Total reserves exc gold: end April 1988 \$6,097m  
 Main exports as % of total: 1988 rice 8.5 %; textiles 14.5 %; rubber 6.4 %; tapioca products 5.4 %  
 Main imports as % of total: 1988 non-electrical machinery 17.5 %; electrical machinery 10 %; chemicals 9 %; iron and steel 8 %  
 Main export markets: 1988 US 18.6 %; Japan 14.9 %; Singapore 8.9 %  
 Main sources of imports: 1988 Japan 25.9 %; US 12.3 %; Singapore 7.7 %  
 Total external debt: 1987 \$20,710m; 1988 \$25.31bn  
 Debt as % of GNP: 1987 44.2 %; 1988 43.3 %; 1989 43.7 %; 1990 43.7 %; 1991 43.7 %; 1992 43.7 %  
 Debt service ratio: 13.6 %  
 Structure of long-term debt: 1987 official sources 66.7 %; private sources 33.2 %  
 Average exchange rate: 1988 \$ = Baht 25.58; \$ = Baht 49.29  
 Current exchange rate (Dec 1989): \$ = Baht 25.31; \$ = Baht 39.50

A monkey and his handler on the island of Koh Samet. The animals provide able assistance during the coconut harvest.

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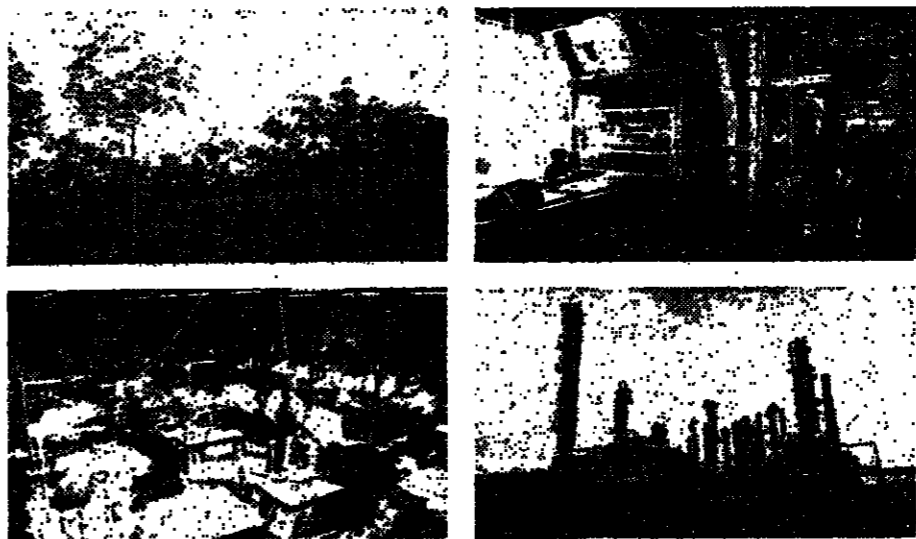
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Office of the Board of Investment

## LEGAL COLUMN

## Last chance to help update the White Book

By Robert Rice, Legal Correspondent

THE EXPERIENCE of lawyers involved in the *Shearson Lehman v MacLaine Watson* case has prompted the Commercial Court Committee to review the court's procedures and other aspects of its day-to-day practices.

The aim is to revise the Commercial Court Guide for practitioners and users of the court in time for inclusion in the next edition of the White Book, the rulebook for the higher courts, which is already in preparation. There is an

informal group to obtain and collate suggestions for the revision of the guide consisting of Mr Justice Hobhouse, Mr Justice Saville, Mr John Veeder QC, Mr Jonathan Hirst, Mr George Staple of Gifford Chance and Ms Sheila Simson of Clyde & Co will report in the New Year. It is looking particularly for suggestions to help the cost-effectiveness of pre-trial directions as well as all the procedures and merits of the changes that have been made in the conduct of trials.

Following the *Shearson Lehman* case Mr Staple together with Mr Justice Webster produced a note making suggestions for possible additions or amendments to the guide.

They suggest that in any complicated case a pre-trial hearing should be held in order to narrow the issues, consider the trial of preliminary issues and the use by the court of its power to order particular issues to be tried before others.

Even if there is to be no separation of the trial of issues, it

may be possible to make scheduling arrangements that would save costs and prevent unnecessary waste of time for everyone involved, they say. The courts should be encouraged to exercise more vigorously the power to order a trial of the preliminary issues. If it does, it may then be sensible in some cases to freeze pleadings until after the preliminary trial.

Consideration should also be given to the more frequent use of the court's power to order particular issues to be considered at the start of the trial. If scheduling has not been agreed at a hearing of pre-trial directions then it should be encouraged at the beginning of any potentially lengthy trial.

The court should also have the power to require the parties to exchange, before witness statements are exchanged, lists of witnesses and the order in which it is intended to call them.

Most of these measures will only be effective if lists of issues have been agreed or decided at an early stage, they say, so lists of issues should, wherever possible, be exchanged and agreed well before trial. They also recommend an amendment to the Yellow Guide to allow for sufficient time to be given for the proper preparation of written closing submissions after the evidence is completed.

Submissions and speeches,

READERS may be interested to learn that such is the power of advertising that the slogan "No FT" has at last passed into the language of the criminal fraternity, according to a recently published dictionary of criminal and sexual slang, Raymond Hughes writes.

It denotes, "a reply by a suspect meaning no comment." Civil lawyers lead pretty sheltered lives compared with their criminal counterparts in the profession and, apart from the odd Latin tag, in general speak much the same language as their clients.

To broaden their education, and just in case they find themselves forced to supplement their earnings with the odd criminal brief, they might benefit from glancing through *Lowpeak* compiled by Mr James Morton, a life-long criminal solicitor and editor of the *New Law Journal*. Much of it is vulgar in the extreme and thus it qualifies as the perfect Christmas stocking filler for permanent display in the smallest room.

Here, to whet the appetite we offer the following:  
To bang a hanger is to steal a purse.

A blister is a summons to appear in court.

Boosterdrawers are underwear worn by shoplifters in which to put stolen goods.

Chawry goods are stolen property.

Dragging is stealing from motor vehicles.

Fall money is cash set aside to pay a lawyer in the event of an arrest.

A granny is a legitimate business used to cover dishonesty. It looks like rain means an arrest is imminent.

A leg up defence is one that needs the active help of a solicitor in constructing it. The rubber-heeled mob is the police complaints bureau.

To be shocked is to have burgled a house and found nothing worth stealing. Telephone numbers means an excessive fee required by a barrister to defend an accused.

*Lowpeak* by James Morton, Angus & Robertson, £3.99.

## Guide to brief encounters

LAWYERS looking to merge or sell their practices or acquire others, but who don't know how to go about it, may be interested in the launch this week of a law firm dating service.

The "lonely sole practitioner of Cornwall with large general practice seeks likewise to share love of tax work with a view to possible merger" can now advertise in confidence through the Professional Practice Index.

The idea is the brainchild of the Tooke Consultancy and takes the form of a bi-monthly four-page bulletin of anonymous entries from law firms and accountants. More detailed information about each practice, its circum-

stances and objectives can be obtained on request from PPI without the identities of the interested parties being revealed until they have given their consent in writing.

While unlikely to be of great interest to larger firms, the service could prove a boon for smaller practices. Until now, according to Mr Michael Simmons of the Tooke Consultancy, they have found it difficult to find a cost-effective way to assess in confidence the profiles of other law firms.

"Introduction agencies, for example, typically charge between three and five per cent of the smaller firm's turnover in the case of a merger and have a vested interest in seeing talks reach fruition," he

says. Firms can participate in PPI either by advertising, which costs £125 plus VAT for which a firm gets 100 words to describe its requirements, or by taking an annual subscription - £300 plus VAT.

To supplement a bulletin entry, all advertisers have to complete a questionnaire designed to provide a structured summary of the practice. Questions range from the number of equity partners to the firm's total fee income for the previous year. The first bulletin contains 13 entries from accountancy firms and 14 from law firms.

Information from Tooke Consultancy Ltd, 100a New Cavendish Street, London W1M 7FA.

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"I AM NOT a conventional politician," says Italy's rather startling Foreign Minister. Only when talking about himself does Gianni De Michelis ever flirt with understatement. This should not be mistaken for modesty, for this 49-year-old Socialist from Venice has a high opinion of his quite formidable talents. It is merely that his appearance, his lifestyle and his intellectual pyrotechnics need no emphasising; he is a colourful anomaly among Italy's peculiarly staid political class.

Gianni De Michelis, Italy's activist Foreign Minister, describes his vision of Europe to John Wyles

# Exceptional events, exceptional answers

His tenure is already beginning to confirm that Italian foreign policy is entering a much more active phase which will seek to exploit opportunities opened up by the visible separation of superpower tensions and the need to build new relationships with the countries of Eastern Europe. A significant pointer to this ambition came during Mr Mikhail Gorbachev's state visit to Rome last week, when Italy happily agreed to systematic contacts with Moscow, including bi-monthly meetings of foreign ministers.

Unfortunately, his greatest defect, as he freely admits, is a difficulty in focusing on one thing at a time. "It is linked to my curiosity," he says apologetically in his nomadic intelligence. Inattention can sometimes look like weak judgement, as when Mr De Michelis proved to be the only Community foreign minister present at Colonel Gaddafi of Libya's celebration of his 20 years in power in August.

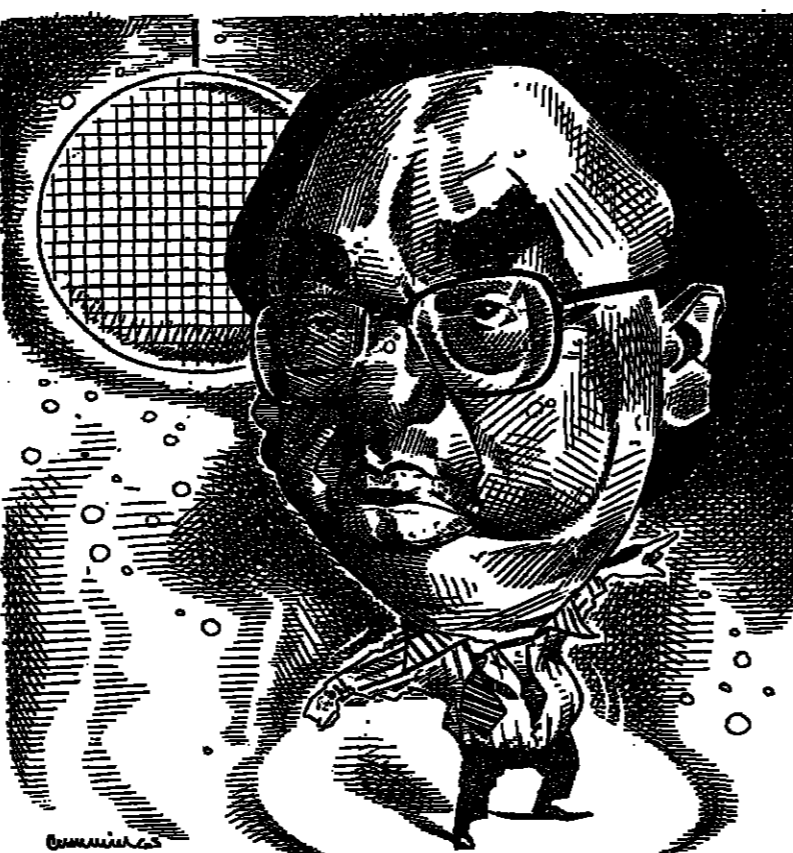
Mr De Michelis asserts the consensus with pedagogic enthusiasm, readily propounding his theories about historical cycles, the emergence of a new "citizenship" in the world, the necessity of harnessing Britain to Western Europe's process of political integration and the initiatives which he and other leaders must take to avoid global instability. All delivered with animation, in an avalanche of words and matching gestures which conform to the foreigner's image of how an Italian politician should behave.

Certainly, failure to do his homework would be quickly spotted by his Community colleagues when Italy takes over the EC Presidency in little more than half a year. Then, Mr De Michelis will find himself chairman of the General Affairs Council and responsible for managing the Community's response to who knows what problems after the rapid withering away of this year of some of the props of the post-war political order in Europe.

Apart from a towering self-confidence, De Michelis will also bring to the task an unusually clear conviction requiring somewhat exceptional responses. And what has been happening in Europe in the last few months seems to confirm this.

**"People are becoming aware . . . that the choice is between integration and disintegration"**

brain of thought and you do it at a time which is normally at your disposal. Unaware, perhaps, that a restless search for distraction is bred into many a Venetian, his colleagues in the European Community's Council of Ministers would be mistaken, however, to see him as anything other than a deeply serious man. He may never have the depiction of Britain's Douglas Haig toasting his brief, nor the quiet patience of France's Roland Dumas in unravelling a diplomatic problem, but there is no mistaking his determination to establish an international name for himself.



Flavia Hotel, where since his appointment in July the Foreign Minister has frequently been seen at work at the back of its cavernous lobby, lies piled high on a small table.

There, Mr De Michelis offers as his key to reading world events the existence of opposing concepts of integration and disintegration. "Globalisation is the dominant characteristic of our times but it inevitably creates reactions among countries and peoples. In many cases these behavioural responses are disintegrative - protectionism, unilateral debt moratoria, racism and phenomena of this type."

He says integration, in the sense of deepening interdependence, is the answer to disintegration and is a tool "for managing the globalisation process. Its most important objective is to safeguard differences among peoples, differences of individuality and identity." Europe, he says, now finds itself at the centre of world affairs because "people are becoming aware,

market before considering further integration. "There are only two alternatives, either we go forward or we go back, and the latter would be a total victory for disintegration which would be followed by general disintegration in Europe."

Italy, he adds, has a specific interest in keeping the UK as a full player in the integration process. Otherwise, he says, there is a danger, even inside a united Europe, of a "neo-Carolingian axis at its heart," based perhaps on a re-united Germany, with Poland and Czechoslovakia in its sphere. This could unbalance the continent and consign Italy, Spain and Portugal to "a peripheral role," says De Michelis.

His reasoning gives further justification for the efforts Italy has launched to build regional collaboration to the south with Yugoslavia, Austria and Hungary. In the short term this will serve to bring these countries closer to the Community, in the longer term it may insure against marginalisation.

More over, modern individualism, he argues, is different from its 18th century forefather since it derives from a new type of citizen - "this is one of my most original intuitions," says De Michelis proudly. Mass education and democratic rights and practices have produced an individual who has "learned to make cost benefit analyses of an instinctive type." The popular uprisings in Eastern Europe are the pressures of a citizenry which, even in the absence of democracy, has concluded that it must be governed in a more reasonable manner.

## LOMBARD

# The challenge to Mrs Thatcher

By Samuel Brittan

ANYONE WHO accepts the need for constitutional constraints on the activities of democratic leaders cannot but feel worried about many features of the British elective dictatorship, one of them being the absence of any limit to the time a Prime Minister can be in office corresponding to the US two-term rule - especially as the British Prime Minister is in many ways more powerful than a US President.

"This does not mean that the Prime Minister will always get his way. His main power is a negative one. Ideas can be cast aside, approaches blocked, individuals passed over, because the party leader does not care for them. One unfortunate effect of the present style of politics is that the kind of leader is elected who thinks he must have a quick answer on every subject an interviewer chooses to raise. This type of personality is normally vain, autocratic, intolerant of dissent and quick to interpret any criticism as a personal affront, or a plot against himself."

So far from the above passage being a personal attack on Margaret Thatcher, it is a quotation from a book of mine, *Left or Right*, which appeared in 1985 when Harold Wilson was Prime Minister - as the masculine personal pronoun indicates. Thus the case against the present British Prime Minister "going on and on" is much more basic than any views one might have for or against Mrs Thatcher personally.

These include an independent central bank, full membership of the European Monetary System, or a reformed or reinforced Second Chamber, not to speak of a Bill of Rights. None of these devices can prevent a change of course if there is sufficient popular support, but they do represent a *Stop, Look and Listen* sign in the face of an irresponsible policy change. Yet Mrs Thatcher is opposed to them all. She is staking far too much on her party always being led by a person in her mould and on that party winning every future election.

That wise 18th century Liberal statesman, Richard Cobden, remarked that the leaders of the Anti-Corn Law League (of whom he had been the most important) were not the right leaders for the struggle of the future. Similarly, even the greatest admirers of Mrs Thatcher's successes in rolling back the frontiers of the state and reducing union power, might wonder if her qualities are best suited for a new era.

## LETTERS

### Measures of value

**From Mr Richard E. Potter.**  
Sir, Martin Wolf urges that the events in Eastern Europe represent not the triumph of merely western values, but specifically of American values ("A triumph of whose values?" Lombard column, November 30). Judging by Mr Wolf's pen name, modesty is not a value highly prized by Anglo-Saxons in America.

We are told that the history of this century pivots on that "Day of Infamy," December 7, 1941, coming immediately after the collapse of capitalism in the 1930s; and that it was only the attack on Pearl Harbour that brought rescue from the New World. I am sure you would find it as ungracious to inquire which great Anglo-Saxon powers were the principal contributors to this collapse, and to the failure of international institutions in the 1930s? Or which non-Anglo-Saxon New World country had come to the aid of Europe two years before Pearl Harbour? Or which great Anglo-Saxon powers delivered up to Stalin the eastern European countries now emerging from 45 years of repression?

Wolf pleads that Europeans, as they strive to rebuild their countries, should be properly respectful of and thankful for American tutelage. If an outpouring of gratitude is helpful to European recovery, I am sure that the great Anglo-Saxon powers will receive their due.

On the other hand, if the sorry state of the western hemisphere south of the Rio Grande is truly reflective of the power of American values, perhaps the ungrateful Europeans will choose to rely on their own more paternal interpretations of universal western values.

The world looks somewhat different from the perspective of a middle power which believes that multilateralism and pluralism will be the driving forces of the 21st century. I comment this perspective to Mr Wolf, who believes that the London/Washington axis expresses the mandate of heaven.

Richard E. Potter,  
Flecken Campbell Godfrey,  
Box 30,  
Toronto Dominion Centre,  
Toronto, Canada

### German banks do not 'own' German industry

**From Mr Karsten Schmidt.**  
Sir, In *Financial Times* interview on November 27 the Prime Minister said, *inter alia*, that "German industry is owned by the banks." This statement cannot be left unchallenged.

The Federal Republic of Germany operates a universal banking system. The banks are both commercial and investment banks and stockbrokers. Naturally they invest their own and customers funds also in commerce and industry - but they do not own German industry.

Most shares in Germany are "bearer" shares, which method exempts the shareholders from management pressures. Management does not know who the shareholders are at any given moment. At shareholders' meetings a frequent method is for shareholders to have their bank represent them. This will result in banks acting for themselves and as proxy for customers - but again, it does not lead to the banks "owning German industry."

The playing field in Germany for takeovers is as level as it is in the UK; the rules are slightly different, but certainly

not incomprehensible. The German and foreign banks in Germany play a leading role both as trusted advisers to the investing public and, to a minor extent, as principals.

If Mrs Thatcher meant what she said, and believes that "German industry is owned by the banks," then - with all due respect - the Prime Minister was wrong, and ill advised. Karsten Schmidt,  
*Executive Vice-President,  
British Chamber of Commerce  
in Germany,  
Hennrich 14,  
D 5000 Köln,  
West Germany*

### Some agreement must be reached at Strasbourg

**From Mr Leonard Jackson.**  
Sir, The EC meeting in Strasbourg on December 8 will surely be crucial in determining whether our partners start to move towards a serious policy without us.

Their leading article (November 1) on the European monetary system (EMS) rightly observed that full membership has become "a litmus test for Britain's commitment to the broader political aspirations of the Community." The British difficulty is that the Prime Minister does not appear to share these aspirations, and the French wish to move too fast.

There is a possible glimpse of compromise Mr Karl Otto Pohl's support for the British preconditions for entering the exchange rate mechanism (ERM); you reported this (November 30). Cannot the French and the Italians be persuaded to bring forward the date for abolition of their exchange controls?

Even so, the fundamental difference between the UK and its EC partners on Delors stages two and three will remain. Our partners are ready to take the first courageous steps towards a currency union, a European central bank, and eventual political union - but the British Government is not.

Yet some measure of agreement must be reached at Strasbourg. During my long association with the Foreign Banks Association, senior bankers from 40 countries - working closely with the Bank of England and the British banks - discussed many technical papers, including those on lending supervision and convergence, in which the British were the pacemakers (the Brits' apparent dragging of feet over Europe is purely governmental). In our discussions no voice was raised, but much was achieved through goodwill and mutual respect: the only way to conduct international discussions.

### Opportunity knocks for the Chancellor

**From Mr L.W. Orchard.**  
Political parties will avoid taking positive action to resolve serious problems if it is likely to cause a degree of resentment to one or more sections of the electorate and thereby unpopularity for themselves.

Currently Britain has four serious problems:

- Inflation;
- The balance of payments;
- Movement of people and goods around the country;
- Environment and pollution.

May I suggest to the Chancellor of the Exchequer that in his next Budget he kills the ricket of company cars,

straightaway helping the UK to overcome, at least in part, those four problems?

Think about it. Everybody from the chairman downwards should provide his/her own means of transport to and from work. There should be no taxation relief to companies for the cost of cars; no taxation relief to individuals for using their cars for (so-called) business purposes; no mileage allowances; no loopholes of any sort. And the consequences?

- Individual purchasing power is reduced, thereby helping the inflation problem;
- The balance of payments would be improved by the pur-

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INSIDE

A new power emerges

In the old days, industrial power was generally rooted in the ability to transform raw materials into products. But a new power is emerging, one that is opaque and embedded in the contractual relations between manufacturers and their subcontractors.

Dramatic shift in complex plot

It sounds like the plot of the sort of novel bought for long-distance aircraft flights. But it is a real-life saga from the Italian business world. Mr Carlo De Benedetti (left) has control of Mondadori, Italy's largest publishing group. But maybe not for long.

Hard road to rewards

Companies looking to equities for solace from the doldrums in the international bond market are finding they must work hard for their rewards in the international market place.

Matra denies interest in Ferranti

Matra, the French arms and electronics group, has denied it is interested in taking a minority stake in Ferranti International Signal, the UK defence electronics group that has been hit by a suspected fraud.

Market Statistics

Table with 2 columns: Item and Value. Includes items like Base lending rates, FTSE 100 index, etc.

Companies in this section

Table listing various companies and their stock prices, such as Bellini Inds, Chubb Elec Power, etc.

Small fry starts to make its presence felt

Rachel Johnson examines the reasons behind the recent growth of the UK's corporate bond market

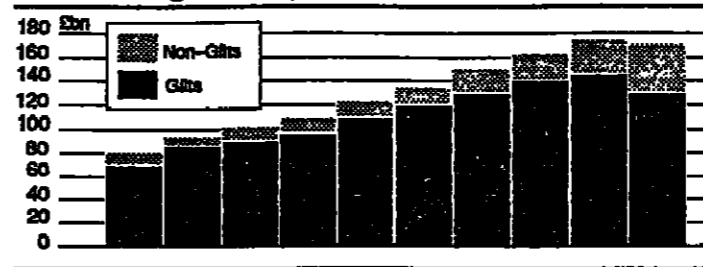
The long-term market in UK corporate bonds is facing a buyers' strike. Investors in sterling bonds are demanding yields that corporate treasurers will find hard to live with for 20 years.

After two potentially attractive new issues last week failed to find the expected demand from institutional investors, Mr Tony Smith of Barclays de Zoete Wedd said: "UK institutions are stepping back from the long-term bond markets."

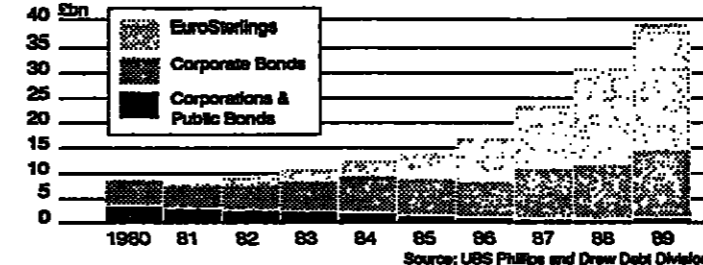
Pay awards pose leadership test for the CBI

If you want to understand why the UK economy is in a mess look at 1986. In that year, the unemployment rate exceeded 11 per cent; even the heavily-massaged official figures showed that a record 3.2m people were jobless.

Outstanding sterling debt



Breakdown of outstanding non-Gilt debt



British companies have, in fact, been the chief beneficiaries of this buoyant market. Without a corporate bond market, UK companies are restricted to raising funds through equity - not always possible or convenient.

fund considerable rolling capital expenditure programmes.

Secured bonds have benefited recently from worries about "event risk", the possibility that an external event, such as a highly-leveraged takeover, can produce a sharp reduction in the credit quality of bonds.

More recently, the problems faced by leveraged takeovers in both the US and UK appear likely to have set back prospects for the growth of a subordinated, or junk, bond market in the UK.

managerial policy than of workers' muscle.

The truth is that Britain is experiencing a shortage of co-ordination rather than a shortage of competition. The problem posed is a classic example of market failure.

By Michael Prowse

wages more affordable in the future. The drawback, of course, is that such a constructive approach to stagnation would require a bit of real leadership from the CBI.

Economics Notebook

Boosting UK's low savings rate

PREPARATIONS for the British Budget - rather like preparations for Christmas - seem to start earlier each year. A key part of the process is the submission of tax reform schemes to the Treasury from all manner of groups, some of which may put forward ideas of genuine public interest and others which may simply be pleading special cases.

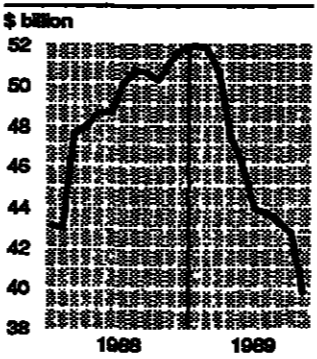
D-Mark illusion

Later today, Mr John Major makes his first appearance as Chancellor before the House of Commons Treasury and Civil Service Committee. The MPs will be falling in their duty if they do not press him once again to clarify his attitude towards sterling.

THIS WEEK

THE POUND is likely to remain the focus of the market's attention this week after the Bank of England's intervention to steady the pound's decline during the month will be provided by today's official reserves figures.

UK official reserves



THE TORONTO-DOMINION BANK
Canadian \$100,000,000
11 1/2 per cent. Deposit Notes due November 27, 1991
List of international branches including Amsterdam-Rotterdam Bank N.V., Deutsche Bank Capital Markets Limited, etc.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Sifting the Fed's contradictions

WHEN the US Federal Reserve came in last Monday and aggressively drained reserves from the banking system, the money market... That really is a measure of how the conventional wisdom was shocked by the Fed's insistence that it had not eased monetary conditions last week.

ingless as more economic data was released showing a continuing decline in economic growth, which pointed to a need for lower interest rates. Although the bond market hardly moved last week, despite several statistics showing a weak economy, the stock market was clear about where it thought the land lay.

chasing Managers reported that the economy deteriorated for the seventh consecutive month in November, and at a slightly greater rate than in the previous two months. The purchasing managers' index fell to 46.6 per cent. An index reading under 50 per cent shows that the economy is in decline.

have been in a state of high doubt about being deceived by the Fed, foreign institutions have plainly ignored this domestic storm in a tea-cup and continued to bet on lower interest rates. A significant amount of foreign buying, even at the long end of the yield curve, was reported by dealers last Thursday, the day of the jump in weekly unemployment claims.

UK GILTS

Traders chew over buy-back policy

THE BANK of England's cancellation of £4.5bn worth of gilts was in danger this week of being treated as a non-event, coming in the middle of a week when gilt prices languished at their lowest levels since just before the 1987 stock market crash.

Bank's cancellation of £4.5bn of gilts to chew on. The news that some of the stock bought in by the Bank had been cancelled rekindled speculation about the likely composition of the gilt market in the 1990s. The market's size - as opposed to composition - also remains the subject of debate.

UK gilts yields. Rebased at par (%). 13.0, 12.0, 11.0, 10.0, 9.0. Dec 1, 1989. Nov 24, 1989. 10 years 20 30. Source: Westing Securities

the success of the first offer, will be the 10 per cent 2002 and 2004 issues. Given these candidates, the Bank will succeed in reducing the servicing costs of the debt by targeting high coupon bonds, so there are fewer stocks with interest payments over 10 per cent to service.

Janet Bush

Table with 5 columns: Rate, 1 week, 4 wks, 10-month, 12-month. Rows include Fed Funds, Treasury bills, Treasury notes, Treasury bonds, Commercial Paper.

Table with 5 columns: Rate, 1 week, 4 wks, 10-month, 12-month. Rows include US Treasury, Japanese Government Bonds, UK Treasury.

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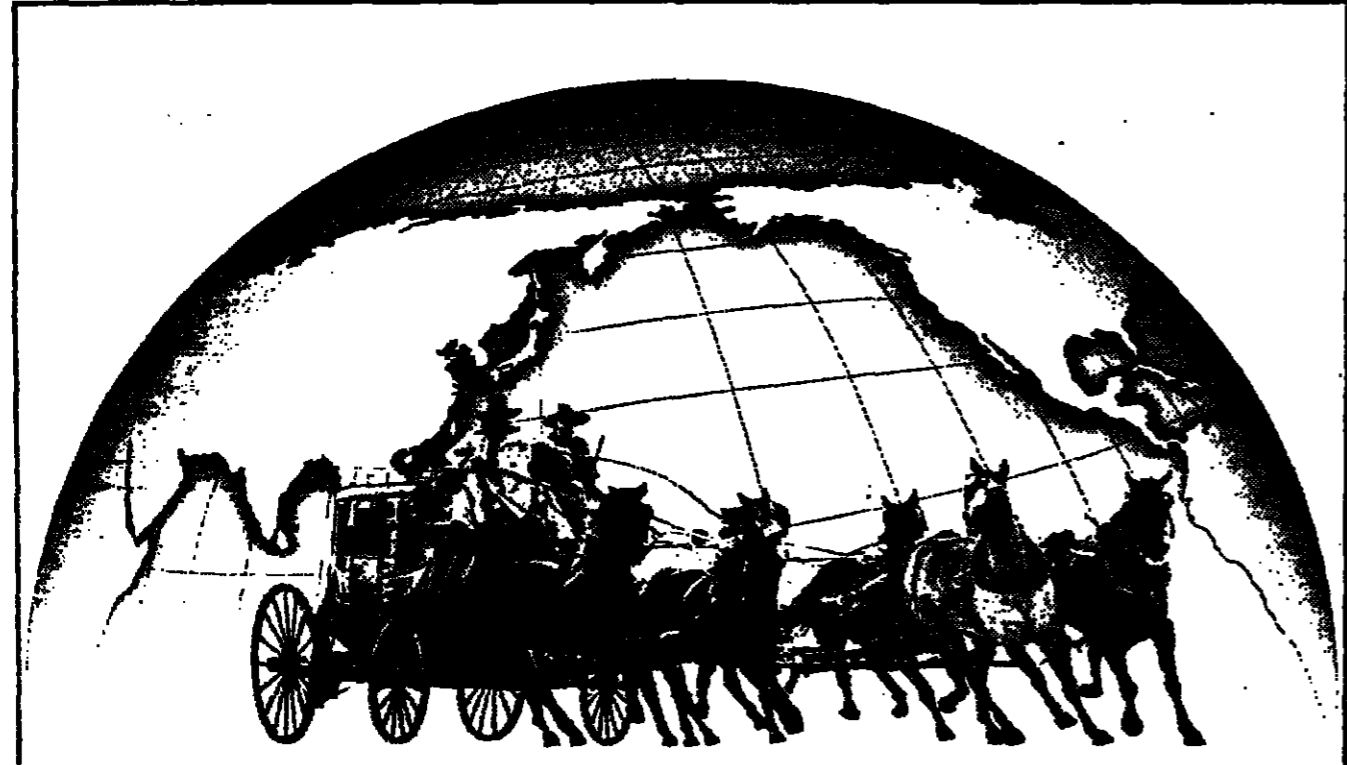
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Nikko Securities + Wells Fargo = Global Leaders in Investment Technology

The Nikko Securities Co., Ltd. has teamed up with Wells Fargo & Co. in a joint venture that operates the first large-scale global investment management firm focused on Investment Technology (IT). The alliance brings together, as equal partners, the world's two top indexers, both with the longest institutional commitment to IT in their own markets.



The Nikko Securities Co., Ltd. 3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo 100, Japan

The Nikko International Network LONDON BRUXELLES GENEVA LYONS FRANKFURT LUXEMBOURG PARIS COPENHAGEN MILAN MADRID AMSTERDAM BARNAUB NEW YORK SAN FRANCISCO LOS ANGELES CHICAGO TORONTO HONG KONG SINGAPORE BANGKOK SYDNEY MELBOURNE SEUL BEIJING QINGDAO SHANGHAI

FT/AIBD INTERNATIONAL BOND SERVICE

Large table listing international bond yields and prices for various countries and currencies, including US, UK, Japan, and others.

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL EQUITIES

Accommodating the discerning investor

WITH THE international bond market in the doldrums, companies which look to equity for sales are finding it difficult to work hard for their rewards in the international marketplace.

lack of demand. Some companies believe that their share prices are too low and are awaiting an upturn in the stock market before making a placement.

ers to focus on their own countries within Europe. Syndicate members are chosen for their in-depth knowledge and skills, as managers try to exert more control over the market.

niche market and must have worldwide appeal. The Japanese institutions and high-net worth individuals are new players in the international equity market.

deign equities," says Mr. Watson of Daiwa. Japanese investors have had their interest in Europe stimulated by some big issues and privatisations.

European Investment Bank plans to step up debt profile

THE EUROPEAN Investment Bank will increase its borrowings on the international capital markets by almost 30 per cent this year.

According to Mr. Ernst Guenther Broeder, the EIB's president, the bank expects to raise the equivalent of Ecu9.2bn (\$10.5bn) in 1989, compared with Ecu7.7bn last year.

Its board approved plans for a three-year lending programme of Ecu1bn for investment projects in Poland and Hungary.

Deborah Hargreaves

Stephen Fidler

NEW INTERNATIONAL BOND ISSUES

Table with columns: Borrowers, Amount m, Maturity, Av. life years, Coupon %, Price, Book runner, Offer yield %, and Offer yield %.

Volume dropped after the crash of 1982, to \$8.99bn last year, but was stronger this year at \$13.48bn.

As US money managers look to diversify their portfolios abroad and Japanese investors develop more of a taste for foreign stocks, the market for new international equity issues can prove lucrative for the right company.

Mr. Amir Kilon, managing director of equity capital markets at Morgan Stanley, predicts that by 1992-1994 US holdings of foreign stocks will be in excess of \$200bn from a current level of around \$75bn.

Furthermore, international placements are more focused than in the past, with a small syndicate group dividing countries between them.

This process, known as ring-fencing, restricts a syndicate manager from selling the stock outside the country or area allocated to it.

Mr. Michael Watson, executive director of equity new issues at Daiwa Securities, explains how the firm uses this principle on a more informal basis.

In a recent offering of some \$400m of new stock for Nichimen, a heavy machinery and chemicals firm, and Sumitomo Trust and Banking, Daiwa asked eight syndicate man-

EUROMARKET TURNOVER (\$bn)

Table with columns: Period, Subtotal, and Total.

Advertisement for EDF Electricite de France, featuring the EDF logo and text: 'Electricite de France \$100,000,000 10% per cent. Guaranteed Bonds due 2009'.

Advertisement for Rabobank Nederland, featuring the bank logo and text: 'Yen 30,000,000,000 Euro-commercial Paper and Certificate of Deposit Programme'.



UK COMPANY NEWS

Matra will not take Ferranti stake

By Andrew Hill

MATRA, the French arms and electronics group, has denied it is interested in taking a minority stake in Ferranti International Signal, which has been lifted by a suspended bid.

The group in the short term by underwriting an innovative £167.1m standby rights issue. The issue - one preferred share for each ordinary held - will take place in February next year, unless there is a bid for Ferranti, or outside investors subscribe at least £150m of new equity capital before then.

man manufacturer, which has been talking with international partners about taking a joint minority stake once Ferranti's future is clear. Matra - and General Electric Company of the UK - were thought to be among those possible partners, but the French group said it was not involved.

The emergency facility has been fully underwritten by Baring Brothers, the securities house, and institutional investors including British Coal Pension Funds, Electra Investment Trust, Guardian Royal Exchange, Legal & General, Phillips & Drew Fund Management, Postal and Prudential Assurance.

Oppenheim takes over as chairman at Dewey

By Andrew Hill

MR NICK OPPENHEIM has taken over from Mr Colin Emson as chairman of Dewey Warren Holdings and will coordinate the sale of the shell company, which has cash reserves of some £44m.

Jeyes Group calls for £7m to set up expansion programme

By Clare Pearson

JEYES GROUP, the USM-quoted manufacturer of household cleaning products including Jeyes Fluid and Parazone bleach, is making a one-for-three rights issue at 20p per share, raising about \$7m.

Reflecting shares issued in its placing on the USM last October, and a rising tax charge, the company is forecasting static earnings per share of 15.5p for 1989. This is assuming an increase in pre-tax profits to not less than £2.1m (£1.6m).

Jeyes also says that two acquisitions under negotiation will absorb about a quarter of the proceeds. A similar amount is earmarked for other purchases in core business areas.

Flagstone in the black with £0.59m

Flagstone Holdings, formerly Cambium Venture Capital, has returned to the black with pre-tax profits of £267,000 in the six months to July 31, against losses of £75,000 last time.

Hestair starts consumer disposals with £12m deal

By John Riddling

HESTAIR, the personnel services and consumer products group which is facing a £167m hostile bid from Adia, a Swiss counterpart, has sold one of its consumer products subsidiaries for £11.65m.

The disposal of Hestair Hope, a mail order distributor of educational supplies and manufacturer of personal stationery, is the first step in a programme of disposals from the consumer products division and reflects the group's strategy of concentrating on personnel services.

European purchase for Wagon

By Richard Tomkins, Midlands Correspondent

WAGON INDUSTRIAL, the West Midlands based engineering, materials handling and office equipment group, is making further inroads into Continental Europe with the acquisition of Forkardt, a privately owned West German engineering company, for DM 26.35m (£9.05m) in cash and shares.

Expanding Vistec hits £1m midterm

Vistec, the computer systems, services and supplies group, reported pre-tax profits of £1.1m for the six months to October 31 on turnover of £17.3m. As all the components of the group have been acquired since October 1988 there are no comparable figures.

Reliance Security profit growth and acquisition

WITH THE benefit of strong growth in its sector of the market, Reliance Security Group increased pre-tax profit by nearly 30 per cent for the half year ended October 6 1989.

on turnover ahead 21 per cent to £19.85m (£16.35m). With earnings at 6.5p (4.9p) the interim dividend is 1.8p (1.5p).

Rolfe & Nolan up 48%

ROLFE & NOLAN Computer Services has increased its pre-tax profits by 48 per cent from £586,000 to £867,000 in the six months to August 31.

James Smith ahead

In the half year ended September 24 1989 James Smith Estates lifted pre-tax profit from £315,000 to £541,000, after substantially increased interest charges of £207,000, against £85,000.

With a 35 (40) per cent tax charge which took £181,000 (£140,000), earnings rose 59 per cent to 12.9p (8.1p). The interim is lifted by more than 50 per cent to 3.2p (2.1p).

James Smith ahead

In the half year ended September 24 1989 James Smith Estates lifted pre-tax profit from £315,000 to £541,000, after substantially increased interest charges of £207,000, against £85,000.

Opening Today Izumi Europe Limited for Access to the Japanese Securities Market. Managing Director: Mr Kunio Nishigaki. PEEK HOUSE, 20 EASTCHEAP LONDON EC3M 1DR. TEL: (01) 929 3647. TELEX: 927577 IZUMIL G. FACSIMILE: (01) 626 8371. Member of TSA.

PROSPECT INDUSTRIES PLC. Offer to shareholders of Tace plc and to Prospect Employees of 65,630,000 Ordinary Shares of 5p each in Prospect Industries PLC at 10p per share payable in full on application. The Offer has been fully underwritten by TRANWOOD EARL & COMPANY LIMITED. SHARE CAPITAL: Issued and to be issued following the Offer £3,281,500.

Central International Limited. U.S. \$150,000,000 Floating Rate Notes due 2006. For the three months 30th November, 1989 to 28th February, 1990 the Notes will carry an interest rate of 8.5% per annum with an interest amount of U.S. \$212.50 per U.S. \$100,000 Note and U.S. \$2,125.00 per U.S. \$1,000,000 Note payable on 28th February, 1990. Bankers Trust Company, London. Agent Bank.

U.S. \$50,000,000 IBM Credit Corporation Floating Rate Yen Linked Notes due 1995. In accordance with the provisions of the Notes, notice is hereby given that for the six months interest period from December 4, 1989 to June 4, 1990 the notes will carry an interest rate of 8 1/2% per annum. The amount payable on June 4, 1990 against Coupon No. 9 will be U.S. \$438.50 per U.S. \$100,000 principal amount. By: The Chase Manhattan Bank, N.A. London, Agent Bank. December 4, 1989.

Storn Group Plc. Placing by Williams de Broë Limited of 10,400,000 ordinary shares of 1p each at 25p per share. Share capital following the Placing: Authorized £625,000 ordinary shares of 1p each. Issued and to be issued fully paid £500,000.

ALLIANCE LEICESTER Alliance & Leicester Building Society £200,000,000 Floating Rate Notes 1993. In accordance with the provisions of the Notes, notice is hereby given that, for the three month period, 30th November, 1989 to 28th February, 1990, the Notes will bear interest at the rate of 15% per cent. per annum. Coupon No. 16 will therefore be payable on 28th February, 1990 at £3,791.10 per coupon from Notes of £100,000 nominal and £189.55 per coupon from Notes of £5,000 nominal. S.G. Warburg & Co. Ltd. Agent Bank.

PROPOSED CONVERSION TO A PUBLIC LIMITED COMPANY AND CAPITAL REORGANISATION. Share capital following the proposed Conversion, Recognition and redemption of the Company's 4.2% preference stock: Issued and fully paid £1,675,800. Ordinary shares of £1 each 6,428,794. Cumulative redeemable preference shares of £1 each deferred shares of £1 each 4.2% (formerly 6%) redeemable preference stock 1985/90 £75,000.

FINANCIAL TIMES STOCK INDICES. Table with columns for Dec, Nov, Oct, Sep, Aug, Jul, Jun, May, Apr, Mar, Feb, Jan, High, Low, 1989, and Since Completion. Rows include Government Sec., Fixed Interest, Ordinary, Gold Mines, FT-All Share, and FT-SE 100.

and (for collection only) up to and including 6th December, 1989 from: The Companies Announcements Office, The International Stock Exchange, 46 Finsbury Square, London EC2. 4th December, 1989.

IG INDEX. 9-11 GROSVENOR GARDENS, LONDON SW1W 0BD. Tel: 01-828 7233. FTSE 100 WALL STREET Dec. 23/20/23/20 +28 Dec. 27/32/27/44 +27 March. 23/65/23/75 +30 March. 27/65/27/77 +3 5pm Prices. Change from previous 9pm close. GOLD Time to buy? Call for our current views. CAL Futures Ltd Windsor House 50 Victoria Street London SW1H 0NW Tel: 01-799 2233 Fax: 01-799 1321.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Main table containing unit trust information, organized into columns for various trust categories and individual trust details.

GUIDE TO UNIT TRUST PRICING

DEFINITIONS: These columns are the purchase, administrative and other costs which have to be paid by new investors. They are included in the price when the unit is bought. The price at which units may be bought. The price at which units may be sold. The net asset value of the unit trust as at the end of the day. The price at which units are sold to the investor. The price at which units are sold to the investor. The price at which units are sold to the investor.

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FT UNIT TRUST INFORMATION SERVICE

For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Main table containing unit trust information with columns for company name, unit price, and other financial details. Includes sub-sections like 'OTHER UK UNIT TRUSTS' and 'INSURANCES'.

INSURANCES
A1 Property Society
Aberdeen & North East Ltd
Abney Life Assurance Co Ltd

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

For Current Unit Trust Prices on any telephone ring direct-0834 + five digit code (listed below). Calls charged at 36p per minute peak and 25p off peak, inc VAT

Main table containing unit trust information, organized into columns for various regions and categories. Includes sections for 'OFFSHORE AND OVERSEAS', 'GUERNSEY (GIB RECOGNISED)', 'MANAGEMENT SERVICES', 'JERSEY (GIB RECOGNISED)', 'LUXEMBOURG (GIB RECOGNISED)', and 'JERSEY (GIB RECOGNISED)'. Each entry lists a company name, address, and unit price.

Wolfe & Co



FT UNIT TRUST INFORMATION SERVICE

Table containing FT Unit Trust Information Service data, including columns for fund names, sectors, and performance metrics. Sub-sections include Isle of Man, Luxembourg, and Other Offshore Funds.

LONDON SHARE SERVICE

Table containing London Share Service data, including columns for share names, prices, and market information. Sub-sections include British Funds, Loans, Foreign Bonds & Rails, and Money Market Bank Accounts.

LONDON SHARE SERVICE

For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 86p per minute peak and 25p off peak, inc VAT

Main table containing various stock market listings including AMERICANS-Contd, BUILDING, TIMBER, ROADS, DRAPERY AND STORES-Contd, ENGINEERING-Contd, INDUSTRIALS (Miscel.)-Contd, CANADIANS, BANKS, HP & LEASING, CHEMICALS, PLASTICS, FOOD, GROCERIES, ETC, HOTELS AND CATERERS, BEERS, WINES & SPIRITS, DRAPERY AND STORES, INSURANCES, BUILDING, TIMBER, ROADS, and INDUSTRIALS (Miscel.).

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LONDON SHARE SERVICE

For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

LEISURE

Table of Leisure stocks including Leisure Group, Leisure World, Leisure Travel, etc.

PAPER, PRINTING, ADVERTISING - Contd

Table of Paper, Printing, Advertising stocks including Newsprint, Printing, Advertising, etc.

TEXTILES - Contd

Table of Textiles stocks including Textiles, Clothing, etc.

TRUSTS, FINANCE, LAND - Contd

Table of Trusts, Finance, Land stocks including Trusts, Finance, Land, etc.

OIL AND GAS - Contd

Table of Oil and Gas stocks including Oil, Gas, etc.

MINES - Contd

Table of Mines stocks including Mines, Metals, etc.

MOTORS, AIRCRAFT TRADES

Table of Motors, Aircraft Trades stocks including Motors, Aircraft, etc.

PROPERTY

Table of Property stocks including Real Estate, etc.

TOBACCO

Table of Tobacco stocks including Tobacco, etc.

TRUSTS, FINANCE, LAND

Table of Trusts, Finance, Land stocks including Trusts, Finance, Land, etc.

OVERSEAS TRADERS

Table of Overseas Traders stocks including Overseas, etc.

THIRD MARKET

Table of Third Market stocks including Third Market, etc.

COMMERCIAL VEHICLES

Table of Commercial Vehicles stocks including Commercial, etc.

COMPONENTS

Table of Components stocks including Components, etc.

GARAGES AND DISTRIBUTORS

Table of Garages and Distributors stocks including Garages, etc.

FINANCE, LAND, etc.

Table of Finance, Land, etc. stocks including Finance, Land, etc.

PLANTATIONS

Table of Plantations stocks including Plantations, etc.

TEAS

Table of Teas stocks including Teas, etc.

NEWSPAPERS, PUBLISHERS

Table of Newspapers, Publishers stocks including Newspapers, etc.

SHOES AND LEATHER

Table of Shoes and Leather stocks including Shoes, etc.

SOUTH AFRICANS

Table of South Africans stocks including South Africans, etc.

OIL AND GAS

Table of Oil and Gas stocks including Oil, Gas, etc.

FINANCE

Table of Finance stocks including Finance, etc.

REGIONAL & IRISH STOCKS

Table of Regional & Irish Stocks including Regional, Irish, etc.

PAPER, PRINTING, ADVERTISING

Table of Paper, Printing, Advertising stocks including Paper, etc.

TEXTILES

Table of Textiles stocks including Textiles, etc.

OIL AND GAS

Table of Oil and Gas stocks including Oil, Gas, etc.

FINANCE

Table of Finance stocks including Finance, etc.

TRADITIONAL OPTIONS

Table of Traditional Options stocks including Traditional, etc.

PROPERTY

Table of Property stocks including Property, etc.

Vertical text on the right edge of the page, possibly a page number or reference.

CURRENCIES, MONEY AND CAPITAL MARKETS

POUND SPOT-FORWARD AGAINST THE POUND. Table with columns for Dec 1, Day's spread, Close, One month, Three months, Six months, and % change.

DOLLAR SPOT-FORWARD AGAINST THE DOLLAR. Table with columns for Dec 1, Day's spread, Close, One month, Three months, Six months, and % change.

FT-ACTUARIES WORLD INDICES. Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries.

NATIONAL AND REGIONAL MARKETS. Table showing indices for various countries like Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Korea, Malaysia, Mexico, Netherlands, New Zealand, Norway, Singapore, South Africa, Spain, Sweden, Switzerland, United Kingdom, and USA.

MONEY MARKETS. A strong D-Mark, not a weak pound.

THE TALK last week again centred on the weakness of sterling, but it was much more a case of the D-Mark's strength. Wholesale interest rates rose nervously in London, but it will probably take a more general decline by the pound before UK bank base rates are forced higher.

EXCHANGE CROSS RATES. Table with columns for Dec 1, £, \$, DM, Yen, F Fr, S Fr, H Fl, Lira, C \$, B Fr.

EURO-CURRENCY INTEREST RATES. Table with columns for Dec 1, Short term, 7 Day, One month, Three months, Six months, and One year.

FT LONDON INTERBANK FIXING. Table with columns for 01.00 am Dec 1, 3 months US Dollars, 6 months US Dollars, and 12 months US Dollars.

MONEY RATES. Table with columns for Dec 1, Overnight, One month, Three months, Six months, and One year.

LONDON MONEY RATES. Table with columns for Dec 1, Overnight, 7 days, One month, Three months, Six months, and One year.

BANK OF ENGLAND TREASURY BILL TENDER. Table with columns for Dec 1, Nov 24, Dec 1, Nov 24.

WEEKLY CHANGE IN WORLD INTEREST RATES. Table with columns for Dec 1, Change, Dec 1, Change.

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Table showing trading activity for Tokyo active stocks.

AMEX COMPOSITE PRICES

Table showing Amex composite prices for various stocks, including prices and changes.

4pm prices December 1

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month	High	Low	Stock	Chg.	12 Month	High	Low	Stock	Chg.	12 Month	High	Low	Stock	Chg.	12 Month	High	Low	Stock	Chg.		
100	100.00	100.00	Dow Jones	+0.15	100	100.00	100.00	Dow Jones	+0.15	100	100.00	100.00	Dow Jones	+0.15	100	100.00	100.00	Dow Jones	+0.15		
101	101.00	101.00	IBM	+0.25	101	101.00	101.00	IBM	+0.25	101	101.00	101.00	IBM	+0.25	101	101.00	101.00	IBM	+0.25	101	101.00
102	102.00	102.00	AT&T	+0.10	102	102.00	102.00	AT&T	+0.10	102	102.00	102.00	AT&T	+0.10	102	102.00	102.00	AT&T	+0.10	102	102.00
103	103.00	103.00	GE	+0.05	103	103.00	103.00	GE	+0.05	103	103.00	103.00	GE	+0.05	103	103.00	103.00	GE	+0.05	103	103.00
104	104.00	104.00	Westinghouse	+0.12	104	104.00	104.00	Westinghouse	+0.12	104	104.00	104.00	Westinghouse	+0.12	104	104.00	104.00	Westinghouse	+0.12	104	104.00
105	105.00	105.00	General Electric	+0.08	105	105.00	105.00	General Electric	+0.08	105	105.00	105.00	General Electric	+0.08	105	105.00	105.00	General Electric	+0.08	105	105.00
106	106.00	106.00	IBM	+0.20	106	106.00	106.00	IBM	+0.20	106	106.00	106.00	IBM	+0.20	106	106.00	106.00	IBM	+0.20	106	106.00
107	107.00	107.00	AT&T	+0.15	107	107.00	107.00	AT&T	+0.15	107	107.00	107.00	AT&T	+0.15	107	107.00	107.00	AT&T	+0.15	107	107.00
108	108.00	108.00	GE	+0.05	108	108.00	108.00	GE	+0.05	108	108.00	108.00	GE	+0.05	108	108.00	108.00	GE	+0.05	108	108.00
109	109.00	109.00	Westinghouse	+0.10	109	109.00	109.00	Westinghouse	+0.10	109	109.00	109.00	Westinghouse	+0.10	109	109.00	109.00	Westinghouse	+0.10	109	109.00
110	110.00	110.00	General Electric	+0.08	110	110.00	110.00	General Electric	+0.08	110	110.00	110.00	General Electric	+0.08	110	110.00	110.00	General Electric	+0.08	110	110.00
111	111.00	111.00	IBM	+0.25	111	111.00	111.00	IBM	+0.25	111	111.00	111.00	IBM	+0.25	111	111.00	111.00	IBM	+0.25	111	111.00
112	112.00	112.00	AT&T	+0.12	112	112.00	112.00	AT&T	+0.12	112	112.00	112.00	AT&T	+0.12	112	112.00	112.00	AT&T	+0.12	112	112.00
113	113.00	113.00	GE	+0.05	113	113.00	113.00	GE	+0.05	113	113.00	113.00	GE	+0.05	113	113.00	113.00	GE	+0.05	113	113.00
114	114.00	114.00	Westinghouse	+0.10	114	114.00	114.00	Westinghouse	+0.10	114	114.00	114.00	Westinghouse	+0.10	114	114.00	114.00	Westinghouse	+0.10	114	114.00
115	115.00	115.00	General Electric	+0.08	115	115.00	115.00	General Electric	+0.08	115	115.00	115.00	General Electric	+0.08	115	115.00	115.00	General Electric	+0.08	115	115.00
116	116.00	116.00	IBM	+0.20	116	116.00	116.00	IBM	+0.20	116	116.00	116.00	IBM	+0.20	116	116.00	116.00	IBM	+0.20	116	116.00
117	117.00	117.00	AT&T	+0.15	117	117.00	117.00	AT&T	+0.15	117	117.00	117.00	AT&T	+0.15	117	117.00	117.00	AT&T	+0.15	117	117.00
118	118.00	118.00	GE	+0.05	118	118.00	118.00	GE	+0.05	118	118.00	118.00	GE	+0.05	118	118.00	118.00	GE	+0.05	118	118.00
119	119.00	119.00	Westinghouse	+0.10	119	119.00	119.00	Westinghouse	+0.10	119	119.00	119.00	Westinghouse	+0.10	119	119.00	119.00	Westinghouse	+0.10	119	119.00
120	120.00	120.00	General Electric	+0.08	120	120.00	120.00	General Electric	+0.08	120	120.00	120.00	General Electric	+0.08	120	120.00	120.00	General Electric	+0.08	120	120.00

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4pm prices December 4

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The Business Column

The growing power of suppliers

A NEW power is emerging within modern manufacturing. It is less tangible than that embodied in the mighty, pre-war industrial factories...

Changing structure

Two forces are driving this reshaping of the industrial structure. First, improvements in the efficiency of production demand that relations with subcontractors will become deeper and more intricate.

Second, products are becoming more complex. Soon basic products such as cars and washing machines will incorporate a mix of new technologies, such as microelectronic control systems and new composite materials.

Potential shift

Manufacturers' expertise will increasingly lie in designing, sourcing and assembling components, rather than in making products by transforming raw materials.

Charles Leadbeater

Spread over the floor of Günter Grass's studio in a series of stark charcoal and ink drawings of dead trees - "a wartime landscape," he says tersely - they will illustrate his next book, Totes Holz (Dead Wood).

The lifeless trunks were drawn this year on a trip to the mountainous Erzgebirge region of East Germany near the border with Czechoslovakia.

But at a time of hope and what he terms "renewal" in East Germany after the sensational opening of the borders with the West, they highlight his most pressing concerns as a writer and human being: the future of eastern Europe and the state of the environment.

PERSONAL FILE

1927 Born in Danzig (now Gdansk in Poland) 1945-6 Served in German army, wounded, captured by Americans 1959 Published The Tin Drum 1963 Dog Years 1969 Local Anaesthetic 1988 The Rat

MONDAY INTERVIEW

A third way for Germany

Günter Grass, the West German novelist, talks to Andrew Fisher about politics and culture

calls the "maximum demand" of reunification, but recognises that concern about merging the two Germanys could also lead to "immovable status quo thinking" which would block any progress.

"What I miss is a third way, which tries to answer the German question by turning to other sources in German history than, of all things, that of Bismarck, which led to the use of force and the waging of wars as the German Reich, the Sec-

PERSONAL FILE

1927 Born in Danzig (now Gdansk in Poland) 1945-6 Served in German army, wounded, captured by Americans 1959 Published The Tin Drum 1963 Dog Years 1969 Local Anaesthetic 1988 The Rat

ond Reich, was formed. "That was a relatively short period of German history, which turned out disastrously, resulting in two world wars, the consequences of which have lasted until today."

of eastern Europe, he has written often enough, most notably in The Tin Drum. His latest novel, The Rat, is a cleverly complex intertwining of the sort of overwhelming modern themes many modern novelists would not dare approach - the wiping out of mankind by nuclear war which leaves rats the dominant species; the death of the forests; the pollution of the sea.

Grass's voice sharpens when he says this, as when he talks about the terrible problems of Calcutta, where he recently spent months, or the responsibilities of the western nations for such hazards as damage to the ozone layer.

Grass's vision of Germany, however, goes beyond the political and economic spheres. It was expressed by the philosopher Herder in the late 18th century: the *Kulturnation* (cultural nation). "Of all areas, it is the most sensitive, the most fragile - culture - that has survived the division of Germany best. Despite being damaged, it has remained alive."

Politically, he adds: "A reform in East Germany can no longer, I think, be postponed. It will lead to a democratisation which will, and should, differ in certain points from West Germany's understanding of democracy. There are lots of possibilities, as the example of western Europe shows, to realise and to live with democracy."



'In a few months the euphoria will have died down ...'

and organise. "It would be a mistake for the West to press for early elections." They should not be held at least until next summer or, better, autumn.

Herder's notion, not an aggressive one, was attacked by other writers and forgotten under Bismarck. "With a new cultural understanding, a confederation of both German states would have the chance to define a national understanding - two confederated states, one cultural nation."

healing has to be done. "Both German states are successor states to the Third Reich. They have borne the burden of the lost war unequally, East Germany more than the Federal Republic. The smaller and weaker part of Germany had to pay and deliver, even up to the present, much higher reparations to the Soviet Union, while the Federal Republic swam free, so to speak, fairly quickly through being a desired partner in the western alliance during the Cold War."

But forging a new collective identity will take time; much

see as typical, without romantic exuberance, without absolute demands, without an off-with-their-heads mentality, and even with a certain cheerfulness if I think of the words on the demonstrators' banners. It's a new tone in Germany."

Having visited Poland a few weeks ago, he says: "The country is going to ruin. After being plundered by the Germans and Russians, it still bears the scars of the Second World War. Apart from western help for the east, Grass sees the need for western capitalism itself to be reshaped to help solve such overwhelming problems as the damage to the ozone layer. "Anyone who adopts a know-all attitude and

argues that the collapse of authoritarian, dogmatic communism is a victory for capitalism is lying through their teeth." It comes as no surprise to hear Grass call himself a sceptic. But events in the east have made him, far less so. "The despairing courage of the Poles in taking their history, their fate, into their own hands at a time of growing economic difficulties, and the fact that the same is happening in East Germany, gives me hope again for the first time in years."

The dilemmas of protecting sources

It is not immediately apparent why the Court of Appeal last week refused to hear the appeal of Mr William Goodwin against the ruling of the previous week of Mr Justice Hoffman that he should disclose the source of his information about a confidential corporate finance plan of a private company.



JUSTINIAN

reflects a principle long established by the Press Council. It is likely to be re-affirmed in the Council's own Code of Practice to be published next week.

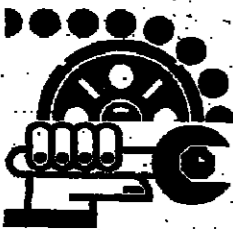
But does it?

The section begins by saying that the court may not order disclosure of a source unless it is satisfied that disclosure is necessary for one or other of four heads of public interest. The four are "the interests of justice," "the prevention of crime" - the two heads relevant to Goodwin's case - "the national security" and "prevention of disorder or crime."

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# FINANCIAL TIMES SURVEY



**Japanese industry enters the Nineties in a mood of optimism after a year of political turmoil in the country.**

As corporate giants expand abroad and the stock market continues its climb, are prospects as favourable as they appear? Robert Thomson reports.

## Good times in a year of upsets

IN A YEAR of political upheaval, with a procession of three prime ministers, stock and sex scandals, and the rise of the Japan Socialist Party, the Japanese economy has flourished and Japanese industry and workers have not yet learned how to relax.

For a people who regard themselves as middle class but poor, the Japanese are surrounded by reminders that life is not as austere as it used to be. Auto makers note that the humble salaried worker, the sarariman as he is called, has begun to buy luxury cars, while Japanese airlines, embarrassed by the riches of a travel surge, are developing new ways to disguise profits.

The spending power of Japanese companies continues to intimidate, and Japanese conspiracy theories are again playing to full houses in Washington. Sony has bought Columbia Pictures; Mitsubishi Estate has taken a majority stake in the Rockefeller Group; and Kato Kagaku, the country's largest maker of starch syrup, is buying Bush House, home of the BBC world service.

As the foreign assets grow, and the Tokyo stock market continues its relentless climb higher, and once struggling industries like shipbuilding

and machine tools report healthy profits, the prospect of a decline in Japan's economic fortunes is remote. Nomura Securities, the world's largest broker, had the confidence to predict the Nikkei stock market average at the end of 1990 could be as high as 81,700, and will be at least 63,700. The index is now around 37,000.

The confidence has its limits. Japan is suffering a labour shortage that has led to a 50 per cent increase in salaries in a few industries over the past two years. The trend could become serious enough for companies to reconsider plans for expansion of capacity within Japan and invest offshore, not to beat trade barriers, but simply because Japan does not have enough workers to make the product.

And there has been concern that consumer spending, which has fuelled economic growth in the past three years, would not recover from the introduction of a 3 per cent consumption tax in April. In the months before the tax, consumers went on a buying binge, but then came year-on-year falls in spending of 0.2 per cent and 1.8 per cent in July and August. The tide appeared to turn in September with a 0.3 per cent increase.

Political instability has



Cars lined up for export at the port of Yokohama: the motor industry remains the engine of the flourishing Japanese economy

## Japanese Industry

ceased, with Mr Toshiki Kaifu, the Prime Minister, managing to avoid scandals since being appointed after his ruling Liberal Democratic Party lost control of the upper house in a July election. At the same time, the Japan Socialist Party, which made remarkable gains at that election, has failed to build on its success.

The JSP remains divided between its ideological Left and more pragmatic Right, and has been unable to present a coherent platform to an electorate which may feel poor but has been enriched enough to have something to lose from a mismanaged economy. Mr Hiroshi Nukui, the director of the JSP's policy secretariat, admits that winning the confidence of Japanese industry will not be easy, but argues that the JSP has the respect of many corporations.

"Japanese business cannot survive just by pursuing profit. Companies have started to realise that and we have to oppose that. We are asking

them to expand their role as members of society," Mr Nukui said. Corporate Japan, conscious that a coalition government headed by the JSP would increase company taxes, has not abandoned the LDP and will encourage employees to vote for the party at a general election likely in February.

The political and industrial role of the just formed Shin Rengo, or Japanese Trade Union Confederation, is an unknown variable. The 8m-member organisation covers about 65 per cent of Japan's 12.5m organised workers, and has described its formation as "the coming true of Japanese workers' earnest wish to unite themselves under one nationwide organisation".

Ideological disputes have troubled the trade union movement for the past four decades, but Shin Rengo has indicated it will "pursue socialist democracy with the market economy at its base" and hopes to develop into a formidable political party. As for industrial dis-

putes, the union says it will not "hesitate to make the necessary compromises with management in so far as it does not bend our principles as a labour organisation."

External forces are likely to be a larger threat to industrial peace of mind in the coming year. Japanese industries are aware that the sensitive trade relationship with the US could deteriorate rapidly. Signs of frustration with a lack of progress in the bilateral Structural Impediments Initiative (SII) talks are already obvious in Washington.

Of their nature, the SII talks were not designed to achieve a sudden reduction in Japan's \$50bn-plus bilateral surplus, but that fact has become more obvious in recent weeks to US trade negotiators, who realise that they will have little to offer a hostile US Congress when the talks conclude next summer. Japanese trade officials are concerned that frustrated US negotiators have taken their eye off the detail

and are making unreasonable demands for dramatic industry-wide changes.

In agriculture, the US has called for a phasing out of tariffs and export subsidies over the next 10 years, and in shipbuilding, the US has demanded that all subsidies, direct and otherwise, be abolished. A senior trade negotiator at the Ministry of International Trade and Industry (MITI) said that the unwillingness of the US to compromise on these grand demands is "unfortunate."

The Government has taken solace from seven consecutive months of decline in the total trade surplus, but MITI officials are aware that the fall has been exaggerated by currency fluctuations and oil import changes, and that the surplus could well increase next year as the Yen appreciates. It is taken for granted by MITI that the Yen will appreciate.

Gross National Product growth for the year to end March is expected to be around 4.8 per cent, but that figure

understates the surges in profitability in some sectors. The machine tool industry, leading off a striking rise in domestic auto sales, has reported a 30 per cent increase in orders in the first half to end June, and has a record order backlog. During 1986 and 1987, the industry struggled, as did shipbuilding, which was protected by a recession cartel until a few weeks ago and now has orders locked up until 1992.

Industrial output in the six months to August rose 7.2 per cent compared to 7.8 per cent in the previous six months, year on year, and real capital spending is expected to increase by just over 13 per cent for the fiscal year, the third successive year of a double-digit increase. More worrying for companies is the prospect of a vigorous campaign by the trade union movement next year during the annual "spring wage offensive."

The labour shortage, together with an expected 2.5

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Editorial production: Roy Terry

per cent increase in consumer prices for the year, have combined to give employees a strong argument for a larger than usual wage hike, but companies will argue that a large increase will simply fuel inflation. The negotiations will be a test of Shin Rengo's intentions and cohesion.

With private investment fuelling growth, the Government has had little need to stimulate industry with a lavish public works package, although Washington suggests that such a programme would push the Japanese economy towards maturity and provide opportunities for US companies. One of the US arguments in the SII talks is that Japan's complex distribution system is not unlike the US system of early this century.

One of the curiosities of the present phase of economic growth is that larger Japanese construction companies have become reluctant to take on some public works projects, regarded as unprofitable because the allowed budget does not take rising labour and materials costs into account.

The Government has proposed an 11.4 per cent increase in budget spending for 1990, but debt service charges and grants aside, the general account increase will be only 3 per cent, which is the ceiling fixed by Ministry of Finance earlier this year. The Bank of Japan, the central bank, is also expected to keep monetary policy tight for fear of a surge in inflation.

Having been surprised by the growth capacity of the economy, Japanese companies are asking the obvious question of how much potential remains. For next year, at least, it is likely to be more of the same.

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**JAPANESE INDUSTRY 2**

**MOTOR INDUSTRY**

**Taste for style and class**

THE Japanese car market has become an international test track for local automobile manufacturers, who are experimenting with "boutique" production runs of customised cars to cater to the emerging individualism of young Japanese, and who are perfecting their luxury cars in a market that has developed a taste for and the means to buy class.

Sales last year rose by 12 per cent from the 3.06m vehicles sold in 1987, and the Ministry of International Trade and Industry (MITI) expects that the number of vehicles owned in Japan will rise from 52m last year to 64m in 1995 while, at the same time, present owners will be replacing vehicles over shorter periods.

A surge in luxury car sales this year was assisted by a change in the tax structure in April which favours models with larger engines. However, even bearing that in mind, the increase is still dramatic. In April, sales of 2,000cc-plus cars rose 78 per cent year compared to the same month a year earlier, while the increase in May was 65 per cent; June, 76 per cent; and July 74 per cent.

Mr Masayuki Saito, managing director of Nissan Motor, said that the two most important trends in the domestic industry are the increase in total demand and the "high class orientation" of purchases. He said the emphasis on luxury is shown in sales of larger vehicles and in the demand for more expensive smaller vehicles, which was 40,000 a month last year, and is running at 60,000 a month this year.

A Toyota spokesman said the social profile of luxury car buyers in Japan is changing. "Smaller luxury cars and imports have shown strong growth and the buyer breakdown has begun to change to include salaried workers as well as middle and lower income individuals - that segment has begun to take on the characteristics of a more general, or popular, market."

Imported cars, particularly Mercedes and BMW, have done well from the "high class orientation" and image consciousness of the increasingly diverse market. The foreign share last

year was 3.7 per cent, up from 3.1 per cent in 1987, and 2.3 per cent in 1986. As well, the range of dealer outlets for foreign vehicles has grown to include department stores and even supermarket chains.

One of the more difficult-to-quantify influences on the market is the high price of land in Japan. The surge in prices in recent years has put a new home beyond the reach of an ever larger number of individuals and families, so it is believed that they are buying better quality cars with money that would have been put away for a home. Higher prices have also given present landowners more leverage and a reason to take their vehicle upmarket.

Toyota said it has not done any studies to monitor the effect of land prices on car purchases, although "our inclination is to think that there has not been that big an effect," while a Mazda spokesman said "car buying habits in the metropolitan zone" may have been affected, and Honda suggested that "buying habits have been affected. It is not in the interests of car makers to be seen to be profiting from the politically sensitive issue of land prices."

The growth in domestic demand has prompted makers to expand production capacity, but MITI is reported to have asked that the companies exercise restraint as there are fears within the ministry that surplus capacity at the new plants could be exported and thus exacerbate trade tension.

Toyota has plans to add a single assembly shop to its domestic operations with a capacity of 15,000 units a month of Lexus LS400 and Celisior. The plant is due to begin production in autumn next year, and the company says it has not received any advice from MITI. Nissan is considering a new line with a capacity of 20,000 units a month to be opened in autumn 1991.

Mazda plans to expand capacity at one plant and scrap outdated lines at another, and insists "this decision was made independently at Mazda in view of the surrounding situation." Honda is to increase production capacity of sports cars by 6,000 units, and concedes "MITI is likely to discourage



Nissan plant, Oppama: share of passenger car market up

change very much from country to country." He said that the company had previously focussed on the "lead country" idea, with significant changes being made to models in different countries, but has been converted to the philosophy of the "global car."

The Toyota spokesman said "international marketing is a misnomer" because "every market is different and the products we sell try to reflect this. While difference is reflected largely in equipment rather than styling at present, as our operations are further globalised and research and development capabilities are strengthened overseas, the differentiation will become even more apparent for the separate markets."

Both companies agree demand in the domestic market will remain strong. Mr Saito said growth is likely to remain high next year, and then settle at 3 to 4 per cent annually, while Toyota expects long-term growth will be around 3 per cent annually.

Robert Thomson

**Caroline Southey reports on Japan's acute labour shortage**

**A jobseeker's paradise**

FOR THE moment Japan is a job seeker's paradise. Major Japanese companies are running talent sweepstakes as the country's acute labour shortage starts to make itself felt on expansion plans.

The average university graduate this year has received more than two job offers. In August the ratio of job openings to job seekers was 1.32:1 with the unemployment rate at 2.25 per cent, putting the number out of work at 1.41m.

The most disturbing feature of the labour shortage for the government and industry, is that it is not confined to one sector. Sectors most affected are construction, service industries and vehicle manufacturers. All blue-collar occupations faces serious shortages.

The Ministry of Labour, in a recent survey, found that 46 per cent of respondents at vehicle plants said they suffered labour shortages in August this year, 41 per cent in the service industry, 41 per cent of machine tool manufacturers and 39 per cent in the construction industry. Most companies predicted that the situation would deteriorate in the final quarter of this year.

No sector - either in manufacturing or non-manufacturing - claimed to have enough workers. The chemical industry appeared to be the most comfortably placed with only 6 per cent reporting a shortage of labour, although companies expected this to rise to 8 per cent by the year end.

Schroder Securities recently reported that shortages of skilled construction workers led to 31 out of 167 Tokyo Metropolitan public-housing projects failing to attract bids within budget in the last fiscal year. Carpenters, plasterers, and scaffolders were hard to find in metropolitan areas, and the wages for some skilled jobs had risen by 50 per cent in two years in the Tokyo area.

But, Schroder concluded, the temporary pressure on profit margins from increased labour costs was being alleviated by the use of imported materials and foreign labour, and in the case of the larger companies, by automation.

There appears to be no evidence to suggest a significant easing of labour market conditions in the short term. However, the Ministry of Labour



Tomorrow's workers: more than enough jobs to go round

and some research analysts believe the shortage has peaked.

"We will soon see the peak out period," says Mr Masaru Takagi at Fuji Research Institute. "There is no danger that we will have the same labour shortage in five year's time."

Mr Takagi's optimism is based on two assumptions: that economic growth will begin to slow and that industry and the government will take action to attract workers, who for reasons of age or sex, are not being drawn into the labour force.

Fuji Research Institute, in a recent study, concluded that there were two main sectors in the labour market which needed to be targeted - workers over 55 and women workers between the ages of 20 and 35.

Statistics merely reflect a truism about Japanese society - workers retire early. There has been steady pressure on Japanese companies to increase the retirement age which has been officially raised from 55 to 60. Last year 55 per cent of all companies set 60 as the retirement age for men, compared with 43 per cent in 1982.

The Ministry of Labour says it is not considering raising the retirement age to 66, but is providing "administrative guidance" to companies to re-employ, retrain and encourage older workers to stay on.

Flexibility over retirement is particularly sensitive in Japan because it is feared the demography of Japan's rapidly ageing society will create long-term

years for women with small children and the establishment of childcare facilities, by government and by companies.

The Ministry of Labour's approach to the problem itself reflects the ambiguity in Japanese society towards working mothers. It says it is working on proposals which would make it possible for women to fulfil their roles as "home-makers" and to hold down jobs. "We have to make it possible for women to fulfil both functions," said Mr Hidetaka Tsujikawa, deputy director in the Ministry of Labour's foreign workers' affairs office.

Behind this creative approach to employment practices is the determination by government ministries to stem the flow of foreign workers.

Foreigners with legal working visas rose from 42,776 in 1983 to 51,407 last year, while there are an estimated 70,000 foreigners who have overstayed visas of various kinds and are still in Japan. The Ministry of Labour estimates that 150,000 foreigners are working illegally.

The Ministry admits it is under pressure from trade unions and larger companies on the one hand who are against a large influx of foreign workers, and smaller companies on the other - particularly in the steel, construction and services sectors - who consider the shortage severe enough to warrant the acceptance of foreign workers, even on a temporary basis.

There are two particularly strong arguments against an influx of foreign workers. The first is the fear that, in a country as homogeneous as Japan, racial problems similar to those of the US and Europe could develop. The second is that, during a continuing period of industrial structural change, the establishment of a cheap labour market could interfere with increased mechanisation and modernisation. Already in some areas the labour shortage is speeding up automation.

For the Labour Ministry the labour shortage is to be welcomed. "It is forcing companies to improve conditions for the work force and it is forcing them to modernise," said Mr Mitsuru Takahashi, deputy director of the ministry's employment policy division.

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**Why does he work for a steelmaker if he's breaking new ground in electronics?**

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JAPANESE INDUSTRY 4

Robert Thomson looks at the construction industry

Building on success

THERE is a love of the new in Japan. The used car market is relatively small, second-hand televisions are virtually impossible to sell, and now the construction industry is thriving on the desire of companies to rebuild office complexes or just to make their buildings "more intelligent".

These are good times for the biggest contractors, which are struggling to find workers to keep pace with orders, and which have become selective about taking on less profitable public works projects.

After declines in construction investment in 1982 and 1983, the industry has recorded growth of 7.2 per cent, 14.6 per cent and 9.3 per cent in the last three years. The industry is helped by an 8.8 per cent increase in public construction investment in 1986, and private construction investment rose 13.5 per cent during 1987.

This year, companies in the first tier are routinely reporting 30 per cent increases in pre-tax profits for the first half to end September. Taisei, one of the largest general contractors, reported a 37.5 per cent increase and Obayashi 32.1 per cent. Fujita Corporation, prominent in Tokyo developments, reported orders received during the first half rose 30.6 per cent and the order backlog rose 18.5 per cent.

The weight of orders has put the industry under strain, and comes at a time of increasing labour shortages in Japan. Mr Yoshihiro Yamada, planning director at Kajima, explains that when there is a choice of jobs, working on a construction site is not the first choice. Mr Yamada talks of the "six Ks", which are six popularly perceived reasons, all beginning with the sound "k" in Japanese, for not working in construction.

The shortage of labour has lifted salaries by about 50 per cent over the past two years, and combined with rising raw materials prices, has made some general contractors reluctant to take public works projects, which are often budgeted a year earlier and leave little room for cost fluctuations.



For Washington, the case confirmed suspicions that Japanese construction companies, using a "damgo" system, collude to exclude competition. The US has contemplated imposing sanctions on Japan to open the construction market to freer competition, but a decision on possible punishment is unlikely before next May, when the two countries will review market opening progress over the past two years.

Table with 12 columns representing fiscal years from 1981 to 1988. Rows include Gross National Product, Construction Investment, Construction Investment Index, Public Construction Investment, Private Construction Investment, and Ratio of construction investment to GNP. Each cell contains values for the year and a percentage ratio.

JAPAN'S fledgling aerospace manufacturers, set to take off into foreign skies, are finding the doors to world markets wide open, with more than a few beckoning calls from the other side.

Meanwhile, the Europeans are also stepping up efforts to woo the Japanese. The French Groupement des Industries Francaises Aeronautiques et Spatiales (GIFAS) came to Tokyo last month to discuss joint development of parts.

Continuing orders by Japan's Self Defence Agency and various joint defence production programmes with the US will offer further possibilities as well. The FSX programme, for one, will serve as a major testing ground for some of the leading edge technologies with which the Japanese have been experimenting.

Members of the industry, however, question to what extent experience in military production can lead to advances in commercial aircraft production, since priorities and technologies are different for many areas of military and commercial aircraft.

But military technology has, in previous cases, been applied to commercial fields. It has often been pointed out, for example, that Mitsubishi Heavy Industries makes its MU-900 business jet on its F-15 production line. Mr Bruce Roscoe, an analyst at Warburg Securities in Tokyo, writes in a recent report that "F-15 technology for composites, avionics, instrumentation and propulsion seeped into MEI's civilian production."

Major advances in commercial aircraft manufacturing would be made more directly through ongoing joint projects such as the medium-sized B737 being developed with Boeing. This is the first joint project in which the Japanese are participating from the research and design stage through to production and marketing.

and US construction companies have basically the same opportunity in the market. There are about 510,000 Japanese construction companies, with about 99.2 per cent of them with a capital value of under ¥100m. The smaller companies do not have the resources to develop labour-saving technology, and, in sub-contracting, are squeezed tightest by the labour shortage, as workers tend to like higher construction companies with bigger projects.

A consequence of the building boom is that corporate customers are tendering less and negotiating more contracts with construction companies. The contractors like negotiated work as it normally means joining a project in its earliest stages and adding value right through the construction chain. And the customers like the certainty of having a construction company committed to a project.

The world is inviting Japan to join it in new ventures

Aerospace interest takes off

As the rising costs and risks of production have pushed aerospace makers into wider networks of international collaboration, the industry's giants in the US and Europe have turned increasingly to Japan in their search for partners with an excitement about the business, technological capability and, above all, deep pockets.

The industry's giants in the US and Europe have turned increasingly to Japan in their search for partners. In 1978, Rolls-Royce called on Japanese makers to participate in the joint development of a jet engine. It was a partnership which developed into a five-nation consortium, International Aero Engines (IAE), and resulted in the production of the V2500 engine.

While the controversial US-Japan joint fighter project, the FSX, has seen something of a protectionist uproar in the US, there is no doubt that the trend in the industry is set towards greater international collaboration in which the Japanese will be frequently sought as partners with an increasingly significant role to play. While Japanese manufacturers have lagged behind the major Western makers in aerospace production, their technological strengths in many areas are highly rated, as evidenced by the substantial amount of subcontracting they already do.

The Japanese themselves are confident that they can provide the necessary technology if given the chance. "As far as capacity is concerned, we could make any type of engine," says an official at Ishikawajima Harima Heavy Industries (IHI), Japan's pre-eminent maker of aero-engines. "It is the production costs and marketing ability that restricts the type of engine we can make," he says.

Strong worldwide demand for new commercial aircraft will offer the Japanese greater opportunities to hone production skills through subcontracting and joint participation in new projects. The world's airliner fleet is expected to expand by 43 per cent between 1988 and 2000, according to a report by Baring Securities.

Work is also in progress on the development of EBCST aircraft, which is another area where IHI would like to see Japanese initiative, particularly in the development of an engine and airframe. The Government has allocated funds this year for research on a prototype engine, materials and airframe design.

Does this indicate the beginning of a Japanese challenge to Western leadership in aerospace? In the view of most analysts, probably not. The domestic industry initially fell far behind the West due to a post-Second World War ban on aircraft production, but has been stunted more significantly by the lack of a sizeable domestic market.

Trade friction, particularly with the US, made industry and the government acutely sensitive to Western fears of an emerging Japanese presence in aerospace. Japanese industry officials do not fall to stress the importance they place on joint production arrangements as the best way for Japanese firms to enter the global market. IHI says that it will only fund joint international projects and only in the R&D stage.

"The ability to make commercial airliners hinges not so much on technological skills, but on the ability to take the inventory build," writes Mr Simon Hookway in a recent Baring Securities report. It also takes about 20 years to commercialise a new airliner. Japanese manufacturers, lacking marketing strength, have thus far been unable and unwilling to take the plunge into the commercial market.

Future growth of the Japanese industry will stem mainly from continuing joint ventures. Mr Simon Hookway writes in a recent Baring Securities report. It also takes about 20 years to commercialise a new airliner. Japanese manufacturers, lacking marketing strength, have thus far been unable and unwilling to take the plunge into the commercial market.

JAPANESE industry across a wide range of manufacturing sectors is engaged in one of the most astonishing periods of re-tooling, factory re-equipment and capital investment on new production capacity. If anyone wants to look at an industry that brings a new definition to the word "busy" they should take a peep at the Japanese machine tool and production equipment sector.

Production this year, already ¥723bn for the first eight months, is going to surpass the previous high of ¥1.05 trillion (million million) in 1985. Total orders in the six months to June were up 30 per cent on the same period last year and production was higher by more than a quarter.

According to the Japanese motor manufacturers association, the Japanese car industry has been introducing over the past few years about 100 small and large model changes every 12 months. The recent Tokyo motor show was jam packed with new Japanese models. A large proportion of the more than 30 Japanese concept cars on show there are destined for production.

This huge outpouring of new products from the country's vehicle-building plants has meant large re-tooling programmes in the Japanese car industry. The order backlog for machine tools from the motor vehicle industry was ¥140bn by July this year, up from ¥85bn in the same period last year, a jump of nearly 50 per cent.

However, every new carburettor, cylinder head or back axle component that arrives on the market for the first time requires production changes at suppliers and subcontractors and, in turn, on production machinery makers themselves. As a result the motor industry has been driving machine tool demand across a wide range of industries.

This phenomenon, and the bulging order books for electronics products and heavy machinery like construction equipment, has fuelled large capital investment projects right through manufacturing. The backlog on machine tool orders for general machinery, for example, was up nearly 40 per cent at ¥224bn.

Mr Shinichi Abe, executive director of the machine tool builders association says machine tool companies are working flat out. This is obviously good news for the 186 substantial machine tool producers out of the 2,000 or so companies making production equipment and of which 112 are in the association.

Machine tool makers believe there could be a downturn in general economic activity in their domestic market towards the end of next year. However, they believe there will still be a tremendous healthy demand for production equipment which will result in a further wave of low cost pressures emanating from Japanese industry.

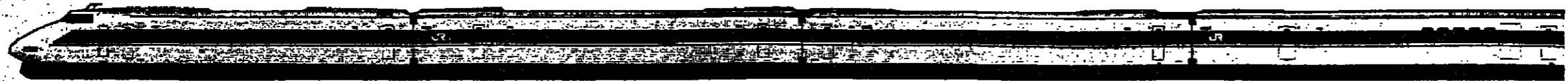
Machine tool manufacturers are creaking at the seams

The word 'busy' redefined

Advertisement for IBJ (The Industrial Bank of Japan, Limited) featuring the headline 'A Leader in Euro-Japanese M&A'. The ad lists several client groups: Fujisankei Communications Group, Taiyo Gyogyo Kabushiki Kaisha, Barudan Co., Ltd., and Daitoh Trading Co., Ltd. It also mentions that the group companies have acted as financial advisors and assisted in negotiations. Contact information for Tokyo, London, and New York offices is provided.

Nick Garnett

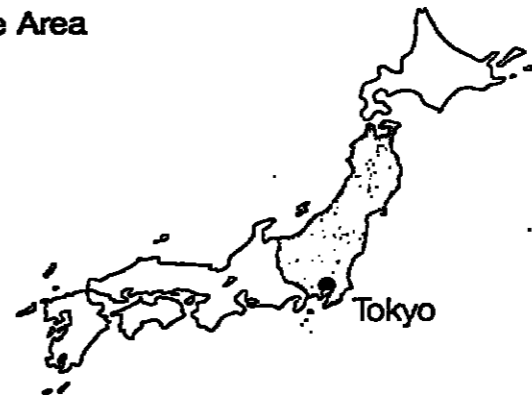
# East Japan Railway Company On the Fast Track to Growth



## The Company

Formed through the privatization of the Japanese National Railways (JNR) on April 1, 1987, the East Japan Railway Company (JR East) is Japan's largest railway company in terms of revenues, number of passengers, service area and track length. In fiscal 1989, ended March 31, 1989, revenues from railway operations rose 5.0%, to ¥1,613 billion (\$12,217 million), or 96.9% of operating revenues. Intensive efforts to diversify boosted revenues from other operations 66.5%, to ¥51 billion (\$386 million). JR East expects revenues from related businesses—including real estate, resort development, and hotel and restaurant management—to continue growing fast, equaling those from passenger railway services by the year 2000. Despite massive start-up expenses incurred in nonrailway activities, total operating expenses rose only 5.7%, to ¥1,330 billion (\$10,074 million). Net income soared 50.8%, to ¥41.4 billion (\$314 million).

Service Area



## Boosting Profitability

Profitability is a prime concern of any enterprise. This is especially true in JR East's case, with JNR's loss-generating record on which to reflect. JR East's management and employees resolved from the outset to make their new company as profitable as possible and to guarantee safety, punctuality and service. Metropolitan Tokyo is our most important operating region, but it is a relatively mature market. We expect revenues to continue growing steadily, and we are emphasizing efficiency and new services to the ever-widening suburbs and outlying areas. Meanwhile, revenues from our Shinkansen Bullet Train network should also grow solidly. Related businesses, however, are slated as our prime growth area. We have substantial holdings of property and other assets in Tokyo. We can better use our physical resources and employees and more effectively tap our enormous customer base by diversifying into new business areas.

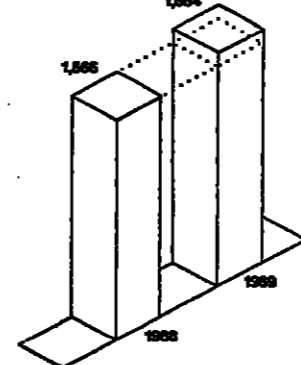
Unlike JNR, JR East is authorized to engage in nonrailway activities. We have established 14 subsidiaries in related fields because we recognize that autonomous companies are more aggressive and responsive to customer needs than directly controlled entities. We plan to form a corporate group with several satellite subsidiaries revolving around core operations. These subsidiaries will in turn support numerous affiliated companies. Advertising and distribution are two well-established satellite operations. Those slated for dramatic expansion include finance, hotel and restaurant management, real estate, and sports and leisure. Through these new businesses, we are confident of generating significant profits while providing an array of quality goods and services.



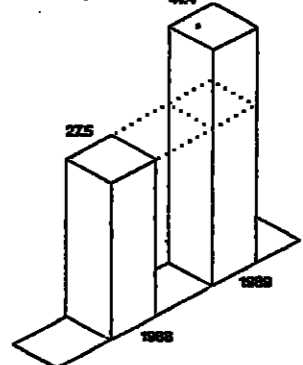
## Strengthening Customer Confidence

New companies often have difficulty establishing an identity. JR East was no different. People knew JNR, but were not always happy with its service. JR East set out to prove that it was new and that it would put the customer first. After declining under JNR, the number of rail passengers and passenger kilometers in our operating area have jumped in the past two years. These rises are due partly to added train runs on our most popular lines, new low-cost, reserved-seat services for long-distance commuters and heavy investments in station refurbishments. We are transforming stations into community hubs with full amenities. Cultural activities have also helped change the traditional image of the station. It is no longer simply "the place to catch the train," but is becoming a destination in itself—an indication of already solid customer confidence in JR East.

Operating revenues (Billions of Yen)



Net Income (Billions of Yen)



## Upgrading Our Technological Base

It is hard, but important, to improve on a superb record. JR East strives to better an on-time record that would be the envy of almost any transport company—an average departure delay in fiscal 1989 of 24 seconds, and an average of a mere six seconds for the Shinkansen. We also have an impressive history of safe operation: there have been no passenger injuries or fatalities on the Shinkansen. The goal of all JR East employees is to build on this performance, especially in terms of safety and punctuality, in line with ongoing training activities and a long-term companywide safety program. Keeping rush-hour trains running on schedule greatly reduces the likelihood of accidents caused by backed-up trains and overcrowded platforms. We have therefore replaced many older steel

railcars in the metropolitan Tokyo area with lightweight stainless-steel cars that travel faster. New railcars and the concerted efforts of our employees have cut intervals between trains, as reflected in the March 1989 timetable revision. We are also endeavoring to streamline our maintenance activities. One possibility is to employ more automated equipment, such as rail inspection devices for use on scheduled commercial trains rather than special inspection trains. JR East researchers are working to boost the maximum operating speed of the Shinkansen from 240 kph to 275 kph, and eventually to 300 kph. We are also developing the magnetic levitation (MAGLEV) linear motor train. In the long term, this investment will produce a quiet, high-speed transportation system more time-efficient and convenient than air travel.

For further information and copies of our Annual Report, Fact Book and other publications, please write to the Finance Department at our Head Office.

### Corporate Data

Number of Employees: 61,857	Passengers Served Daily: 15 million (approx.)	Paris: Chemins de fer de l'Est du Japon
Number of Stations: 1,837	Population of Operating Area: 56 million (approx.)	Bureau de Paris: 24-26, Rue de la République, F-75008 Paris, France
Number of Rolling Stock: 13,753		Phone: (1) 45-22-60-48
Daily Train Runs: 13,145 (As of March 11, 1989)	Head Office: East Japan Railway Company, 6-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100, Japan	Facsimile: (1) 43-87-82-87
Passenger Line Network: 7,478 kilometers	Phone: (03) 240-5663	
	Facsimile: (03) 240-5616	



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JAPANESE INDUSTRY 7

Caroline Southey looks at the effects of liquor tax changes

# The battle of the bottled spirits

IT HAS been a watershed year for spirit brands in Japan. Fierce competition, opened up by changes to the tax system in April, have resulted in a dramatic realignment in the market as foreign companies have sought to take advantage and domestic groups have attempted to hold on to their market share.

The tax changes, the conclusion of an 18-year campaign by the UK and other foreign governments, meant that for the first time, Scotch whiskies and other imports, competed on equal terms with Japanese brands.

The excitement sparked off by these changes is understandable considering the size of the existing market as well as its untapped potential.

The Japanese whisky market stands at 20m cases a year. It is the third largest export market for Scotch, after the US and France, although Scotch accounts for only 9 per cent of Japanese whisky consumption. Some analysts predict that the value of exports of Scotch whisky to Japan could outstrip those to the US by the end of 1990. On an annualised basis, Japan is now worth up to 75 per cent of the value of exports to the US.

The market remains ripe for expansion. A Health Ministry

survey found that 90 per cent of Japanese men and 45 per cent of women consume alcohol (this is thought to be much higher among women under 35) while 78.6 per cent of the total population believe drinking alcohol is a "pleasant" part of life.

Furthermore, per capita consumption, at just over six litres is relatively low. Japan ranks as 27th in the international league. It has, however, been rising steadily, at an average of 1.8 per cent a since the 1960s, while the consumption of spirits has doubled since the early 1970s.

The tax changes on alcohol, introduced in April this year, made three changes in the regime for whisky and brandy. Differential tax rates for each grade was abolished. Imported whisky and cognac came, by definition, into the top category, Special Grade, along with premium domestic brands: first grade comprised mid-priced domestic brands

while second grade was a large segment of price-competitive brands.

● Tax levels were unified into a single tax, set at ¥2,456 per litre of alcohol. This meant the tax on the special grade was halved, cut slightly on the first grade and on the second grade raised by over 200 per cent to the new flat rate.

● The old ad-valorem tax on high-priced brands was abolished. This came on top of other taxes and was structured in a way that favoured domestic brands, penalising premium imports.

These changes have been felt across the liquor industry, but most acutely by the two giants of the industry - the UK's United Distillers (part of Guinness) and Japan's Suntory which holds more than two thirds of the market.

United Distillers, which revamped its distributing and marketing arms earlier this year, reports that its key brands have performed even more strongly since the tax changes. Mr Chris Woolston, marketing director, is quick to point however, that the group's key brands - Old Parr, Swing, I.W. Harper, Johnnie Walker Red and Black Labels and White Horse - were in a healthy position prior to the tax changes.

"The setting up of a United Distillers operation to manage our interest in Japan and an increased emphasis on brand marketing have been key contributors to our success," he says.

United Distillers says the shake-out has been felt on domestic brands particularly.

**'Consumers are more image oriented. We expect the trend towards better quality whiskies to continue'**

"As expected, the old domestic second grade brands have suffered dramatically since the tax changes. We expect that in total sales of domestic brands will index significantly down by the end of the year."

Suntory's prognosis is that imported whisky, which held 10 per cent of the market share in 1988, will double this to 20 per cent this year. Sales of imported whiskies have increased by 40 per cent this year.

The company - which formed a shareholding and marketing alliance with Allied Lyons of the UK last autumn and recently took a 19 per cent stake in the Bordeaux wine

interests of the French GMF insurance group - said whisky and wine accounted for 80 per cent of total sales, beer 20 per cent, food and non-alcoholic beverages the rest.

The experience of United Distillers, confirmed by Suntory, is that expensive domestic brands are performing well but, as in the imported sector, only a small number of the highest quality and best supported brands continue to perform well.

"Consumers are more image oriented. People want a more luxurious lifestyle and they buy products to match that image. We expect the trend towards better quality, high priced whiskies to continue," says Mr Kazumori Yoshizawa, manager of Suntory's public relations department.

"After the tax reform the general trend of customers favouring high-class goods has accelerated the buying of liquor. High quality and brand-image of each product has become more important," said Mr Yoshizawa.

Suntory says the prices of its superior brands have returned to the level of 10 years ago, and that the market is expanding strongly with a 40 per cent increase in sales since April. However, its first grade whiskies have shown less growth



A cooper at Nikka Whiskey's Yoichi distillery on the northern island of Hokkaido.

than last year, while its second grade has suffered stagnant sales because of the drastic price hike.

For both groups, changes in the market profile has led to a closer scrutiny of brands. Mr Woolston says that United Distillers has reduced its brand spread from 126 to 30, and it is concentrating on marketing just six of these. He says the group has no plans to rationalise its brands any further.

He adds: "Most of the new products launched by the domestic to fill the price point gaps left when brands moved down after the tax change have struggled despite heavy support."

Suntory is cautious about the changes it has made to accommodate the tax changes, but admits that it has upgraded its Reserve and Old brands - "in contents and bottle design." It has also introduced new products such as Hibiki, in the high price range and a new 12-year old, Crest.

The balance sheets of both groups tell the tale quite eloquently. Buoyant sales of spirits in the Far East boosted Guinness's profits - pre-tax profits were up 24 per cent to £258m in the half-year to June 30. Mr Anthony Tennant, Guinness's chairman, said when the results were announced: "United Distillers, our spirits

company, has continued to improve its performance. Our business in Japan is developing well as a result of setting up our own distribution organisation."

In August Suntory, still a privately-owned company, reported that it had managed to maintain the growth of its whisky sales this year despite the tax changes. It said its distilled liquor and wine sales rose 6.4 per cent in volume terms in the first half of this year, but only 0.1 per cent in price terms because of price cuts on many brands. Its pre-tax profits reached ¥11.7 bn on sales of ¥354.1bn in the first half. Net profit was ¥2.4bn.

## BEER INDUSTRY

# A taste for new products



Bottled up: Sapporo Brewery's production line

THE STABLE Japanese beer market, in which brewers look for granted that drinkers had conservative taste, has been transformed into a fast-paced competition with rival companies releasing a batch of new recipes and backing products with marketing mania.

Until recently, the four major Japanese brewers had been locked into virtually unchanging market shares, with Kirin and Sapporo on top, and Asahi and Suntory at the bottom. But Asahi changed the old order with a campaign based on a new product: dry beer - the dryness comes from longer fermentation.

"The Japanese are now becoming aware that different kinds of beer are better for different times, places and occasions," says Mr Shigeyuki Suzuki, a liquor buyer for Tokyo's huge Isetan department store.

Consumers, the marketing men say and sales prove, now prefer beer with flavour and strength yet with a cleaner, crisper taste. Before the Second World War, the tendency was to drink beer which had a bitter and heavy taste.

Asahi Breweries launched Asahi Dry in March 1988, and then, a year later, Asahi Super Dry, which pushed Asahi's sales up by 47 per cent. The competition fought back with dry beers of their own, as well as new taste concepts such as Asahi's "Yeast", which is fermented again in the bottle, and the extra heavy Winter Story, sold only in the winter.

In 1988, Kirin's market share dropped below 80 per cent for the first time in 15 years, while, in 1989, Asahi's sales increased by 73 per cent, accounting for most of the 7.7 per cent increase for the industry. In the first six months of 1989, Asahi's sales rose 36 per cent against a 6.3 per cent increase for the industry.

Asahi's sales growth prospects remain strong compared to those of Kirin, whose August 9 announcement that its beer sales are expected to increase a modest 3 per cent this year means its share of the beer market is in danger of falling below 50 per cent.

Evidence is mounting that the sales boom of dry beer has peaked. "I predict the fever will be terminated," says Mr Koyu Maezawa, general manager of the Sapporo publication relations department.

"Already there is evidence that sales have peaked in the major cities this summer. The focus is now on local cities,

where sales have been rising, but this will be over by next year."

Recent statistics bear this out. Beer sales were sluggish during the summer. Only Asahi Breweries Superdry Beer enjoyed robust demand while Kirin, Sapporo and Suntory have each seen double-digit declines in sales for the first half of July on a year-on-year basis.

Asahi's strong performance is still being driven by Super Dry, especially in regional Japan. In the southern island of Kyushu, for example, Asahi saw an 85 per cent increase in beer sales last summer. But Asahi is expecting its sales to flatten out. Last October it predicted its 1989 beer sales would rise by 35 per cent, but the number was revised downward to 29 per cent in February and to 25 per cent in August.

"I think we will see a return to traditional brands by the brewers," Sapporo will concentrate on draught, Asahi on dry and Kirin on lager," says Mr Maezawa.

Kirin has recently adopted the slogan "I'll stick to lager beer", hoping to recapture its lost market share. The company has also changed the name of its leading brand "Kirin Beer" to "Kirin Lager", and launched four new brands.

These new strategies are beginning to show results in Tokyo's Suginami Ward, the origin of the 1988 Dry Beer incursion and long a key beer test market because of its large university student and young white collar populations. Kirin beer sales at five Suginami distributors have been on the upswing since February, according to a company survey. Asahi's President Hiroto Higuchi concedes the company's lower forecasts for 1989 are due mostly to buoyant sales of Kirin's lager beer.

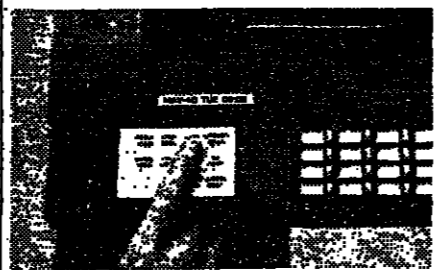
The shift in drinking patterns is just one of many consumer facts that have hit Japan recently. A survey of the market share of 100 products and services in 1989 by Nihon Keizai Shinbun shows that market leadership changed hands in five product segments: mainframe computers, single-lens reflex cameras, low density polyethylene, wine and publishing.

A total of 31 leading companies lost market share, two more than a year earlier, and the trend is fuelling manufacturers' worries that overheated competition could bring about radical price reductions.

Caroline Southey

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JAPANESE INDUSTRY 9

Nick Garnett investigates the toy industry

Offshore production

THE toy industry is one that Japan has been unable to maintain as an integrated producer on Japanese soil.

Fifteen years ago, the country's toy makers exported 60 per cent of output and there were virtually no imports. Now 45 per cent of the ¥430bn domestic toy market (excluding game playing computers) is supplied by imports and most of Japan's toy companies have substantial production plants outside Japan, mainly in other parts of the Far East.

This has been a long process which was given an extra impetus by the revaluation of the yen in the mid-1980s. More plants went offshore. Tomy, a company with annual sales of ¥20bn, sold its operations in the US.

The process is continuing. Imports will rise further next year, according to the Japan International Toy Fair Association. Tamiya, an important producer of radio-controlled cars and plastic kits which has had a determined policy of maintaining production in Japan from its base at Shinjuku, west of Tokyo, is now thinking of establishing a plant in Thailand.

However, Japanese toy companies together rank second only to US toy companies (mainly using Far Eastern plants) in total sales. Some of their products are market leaders in diverse markets around the world. There is still a significant production base at "Toytown", the collection of subcontractors at Utsunomiya City, north of Tokyo. And the industry itself is going through

an amazing array of changes.

One of these has been the astonishing rise of Nintendo, now easily the biggest in Japan's toy industry though it does its best to deny it is a toy maker.

This former card maker and supplier of arcade machines (Japan is the world's biggest supplier of such machines) shot into phenomenal growth when it introduced its Family Computer in 1983.

A games-playing machine, it is also now used in companies and on the Tokyo Stock Exchange. According to Miss Atsuko Tatum, publisher of the Japan Toy and Hobby market report, Nintendo has sold 11m Family Computers in Japan.

Company sales increased 26 per cent this year, it is now making machines in the US and is looking to sell this equipment in the UK. Though not a toy in the strictest definition, 90 per cent of the machines are bought by young people.

Another trend is the emergence of Japanese electronics companies into children's products, a move which has caught the eye of the analysts and the stock market at the expense of long-standing toy makers.

This change has been led by Sony with some 11 products of its My First Sony range of chunky, cute-looking music equipment for children. Matsushita moved into the toy market for the first time this year with educational toys like "pasokki", a kind of telephone on which a child can be helped to learn English. NEC

entered the difficult TV video game market two years ago.

At the same time, the main steel companies have declared their intention of moving into toys as part of their diversification programmes. Kawasaki has been looking to get into the market for puzzles. Nippon Steel produced an expensive metal toy train two years ago though that has so far not been released into the market. Kawai, a piano maker, has recently started producing wooden toys.

As a response to this, and as a consequence of demographic changes which mean the average age of Japanese children is rising, traditional toy makers have been edging into other products.

Mr Mike Hayakawa ("I'm Mike, you're Nick, right?"), general manager of the overseas division of Bandai, one of the biggest toy makers with sales of ¥78bn last year, says the company has been moving into fashion goods such as clothes and stationery, to add further to its partial diversification into music products, video and cartoons. Like Epoch, another toy maker, it has been selling a lot of hand-held games. Mr Hayakawa says 45 per cent of Bandai sales now come from non-toy products.

Nevertheless, so-called character toys, usually taken from



Quality control (above) at a factory in Toytown, a collection of sub-contractors at Utsunomiya City, north of Tokyo. High-flyer (right): Japanese children at play



given a new lease of life this year with its Flower Rock, a pretty hideous looking collection of plastic flowers which move to sound vibrations.

One of the biggest issues facing the industry is its distribution network. "This is so complicated no-one understands it," says Miss Tatum.

The system has been under attack for some time from toy chain stores like Hello Mac, which decided, in effect, to buy direct from manufacturers by purchasing its own wholesale business.

The established system of

getting toys to the customer is going to face an even bigger challenge very soon. Toys R US, the huge US toy store chain, has announced in a joint venture with McDonald's, the hamburger company, its intention to set up a large number of stores, starting in 1991. Rumours are rife that the company could build up to 200 stores and it has made it clear that it will only buy toys direct from the manufacturer. "How this is going to work out in practice is anybody's guess right now," says Mr Hayakawa.



Kenjiro Tomiyama: the man who really runs Tomy

PROFILE: TOMY

Toytown's top ranker

TOMY, the toy maker, nestles off a small road in the heavily built-up, slightly down market area of Katsushika, east of Tokyo's centre. Hemmed in by houses, the neighbourhood temple and a mahjong club its two modern office blocks look rather out of place.

In the car park sits a black Toyota Century with dark tinted windows and curtains, the archetypal behemoth used by Japanese business officials, including Mr Masanari Tomiyama, the elderly son of Tomy's founder.

Parked alongside is a silver Porsche 944, the proud possession of Mr Kenjiro Tomiyama, the 35-year-old president, grandson of the founder and the man who really runs Tomy. The Porsche says something about changing habits in Japan. It also says something for the showbiz, shoot-from-the-hip style of the toy industry's principal figures.

Tomy was the brainchild of Rikichiro Tomiyama, who started making tin toys back in 1924. Like most Japanese toy companies, growth since then has been small's pace compared with the shooting stars of the car and electronics industry, and littered with difficulties.

But Tomy, with yearly sales of about ¥40bn, is one of Japan's biggest toy companies in an industry that ranks second only to the US in terms of total sales.

The revaluation of the yen in the mid 1980s hurt Tomy like everyone else in the industry. The company set up an office in Hong Kong as early as 1976 and a production facility in Singapore in 1972. But currency shifts in 1985-6 forced it to give up its operations in the US - selling it to Coleco in 1986 for \$62m - and to produce even more offshore, culminating in the setting up of a plant in Thailand last year.

The sale of the US operation

was followed by a piece of bad luck. It made a marketing arrangement with Coleco but the demise of that company as a result of the burning out of the Cabbage Patch craze forced Tomy into again setting up an operation in North America, but much smaller.

Just 45 per cent of production is now carried out in Japan, mainly at Utsunomiya City, the Toytown north of Tokyo that harbours a web of toy makers and their suppliers and subcontractors. Tomy employs 100 people in direct manufacturing in Japan, indicating the large volumes of components it buys in from suppliers. It has separate subcontractors for injection moulding, plastic parts, motors and labelling. Some contractors, which also work for other toy makers, employ up to 200 but some have workforces of 40 or fewer.

Tomy's catalogue is packed with thousands of different toys. Its main products, apart from character toys, include model racing cars and plastic trains (which it has made for 31 years). It also took the Silvanian Family figures from Epoch, another Japanese toy maker which has been producing them, and used that marketing arrangement to become a major toy seller in the UK. Tomy claims to be the second largest toy supplier in the British market.

Because the average age of Japanese children is rising, Tomy is trying to extend promotion of products catering for the older child. This includes animation and video products and its range of metal trains.

Like many toy makers, though, it is very wary of the strength of the electronics companies which have begun exploiting the market for children and teenagers.

Nick Garnett

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LONDON (THUR.)	NR202 17:30		(FRI.) 19:50 TOKYO
LONDON (SAT.)	NR202 17:30		(SUN.) 13:50 TOKYO
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TOKYO (TUE.)	NR201 11:20		(TUE.) 16:10 LONDON
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JAPANESE INDUSTRY 10

TRADITIONAL INDUSTRIES

Fight to protect a rich culture

TIMES are hard for Japan's traditional craft industries. The revolutionary "Just In Time" production systems have turned the younger generations into consumers of factory goods rather than painstakingly hand-crafted kimonos and lacquerware.

With shops overflowing with cheap (by comparison) everyday products which come off production lines, and the continued westernisation of Japanese life styles, traditional crafts are facing an increasingly hostile environment.

This is surprising given that Japan enjoys a much higher level of culture consciousness than almost all other industrially developed nations. Japanese still pursue traditional pastimes such as calligraphy and flower arranging.

But the older generation are disturbed by the changes taking place. Professor Yoshida Mitsukuni, retired historian from Kyoto University, points out: "Some young people consider our traditional art and crafts alien. They don't understand the historical continuity. Our lives are quite westernised now and many of the objects are no longer used as part of daily life. In Kyoto, which is renowned for its chinaware, we sell more Rosenthal china than we do locally made porcelain."

A survey by the prime minister's office found that while 85 per cent of those questioned thought that Japan was scientifically and technologically advanced, only 55 per cent felt the country had a rich culture.

Undaunted, the industry's artisans and their representatives are adopting methods of modern society to keep alive cultural traditions that are centuries old. "When we create a new craft we must always create on the basis of whether the consumer is going to welcome what we have created or not," says Kenji Ekuan, a leading industrial designer.

"For Japanese crafts to appeal to more people it may also be necessary for them to change with the times. For example, the microwave oven has become an indispensable appliance in the lives of many people. But it is not possible to put lacquerware bowls or anything decorated with gold leaf

into a microwave. So it may be necessary to adapt to a modern lifestyle," advises Ms Kazuko Watanabe, research director for Isetan Department Store.

The products most affected by changes in lifestyle are kimonos and sashes (obi), lacquerware (shikki), chinaware and fabrics.

Prof Mitenkuni says it is difficult to quantify the extent to which the industries are shrinking because statistics are not readily available.

But the experience of Mr Adachi Masakazu, a kimono artisan in Tokyo, partly illustrates the problem. The artisan guild to which Mr Masakazu belongs has dropped from 307 people 10 years ago to 108 while the average number of workers employed by the artisans has dropped from 5.5 in 1979 to 2.3.

To produce one kimono, using the yuzen-zome (dye) method, involves 17 different processes, all of which are completed by hand. Last year Mr Adachi received orders for 1,500 kimonos which he sells for Y2m or more.

Fewer and fewer kimonos are being sold. They are now worn mainly for ceremonial occasions, particularly for weddings. The exorbitant costs have placed them out of the reach of most young brides and "western" style white weddings are fashionable.

"Kimono producers are suffering the worst of all the traditional industries," says Mr Shunichi Kanesaki, managing director of the Japan Traditional Craft Centre. "Men don't wear them anymore and women were them only for special ceremonies. Women are less inclined to wear them as everyday clothing because they are no longer practical." He adds: "It is difficult to drive a car in a kimono."

The country's increased labour shortage and rise in labour costs is felt no more acutely than in the traditional industries. It takes 10 years to qualify as a kimono artisan and 60 per cent of those who complete their apprenticeships leave the workshops in which they have been trained.

The protection of the industry and its promotion lies primarily in the hands of the gov-



The Dance Spectacles and Drama by the Kamogawa Odori Geisha of Ponto-cho (above) in Kyoto provides a beautiful display of traditional dancing. Ritual music accompanies the all-woman cast through a narrative drama. After the interval, the women celebrate

the seasons in five scenes. Each is set to a backdrop depicting the seasons — among them cherry blossoms in spring, bamboo branches in the summer. "Autumn tints in Sunset", the grand finale, is a breathtaking display of scarlet-tinged leaves glistening in the evening sun.

ernment. It first took an active interest in 1974 when the Promotion of Traditional Craft Industries law was passed.

A year later the Japan Traditional Craft Centre was established. Housed in Gaienmachi in Tokyo, the centre promotes traditional crafts at the grassroots level acting under the guidance of national and regional authorities.

The 1974 act is implemented by the Ministry of Trade and Industry (MITI) and allows for the registration of certain industries.

To be eligible to register with MITI, industries must produce articles which fulfil these criteria:

- The item must be a craft article used in everyday life and manufactured primarily by hand;
- Principle techniques should date back to the Edo period (i.e. be of pre-1868 origin);
- Materials should be those traditionally employed;
- Industries must be regionally based, involving either 10 enterprises or 30 craftsmen concentrated in the same region.

The latest comprehensive survey of the industries, completed in 1986, shows that the

number of craft industries meeting the first three conditions included 900 different types of manufacture, having an annual turnover of Y7700bn — a total of 43,000 concerns which employed 300,000 workers.

The government's policies are strongly attacked, both by academics and those involved in the industry. Part of the criticism is over the fact that traditional arts and crafts are cared for by at least four ministries — trade, culture, education and agriculture.

For the traditionalists, a return to old values and rituals is the only answer to Japan's dying handicrafts industry.

But there are those who predict that the only way to sell more crafts is to apply sophisticated marketing techniques which will appeal to Japan's modern generation.

"Our crafts are becoming more attractive to foreigners, particularly westerners. If we can market our goods for them, we can create a marketable image for Japan's younger generations. We have to make culture accessible to all," says Mr Kanesaki.

Caroline Southey

Holidaymakers prefer the archipelago, reports Caroline Southey

Tourists opt to stay at home

JAPANESE tourist habits might well date back to 1638 when the policy of *sakoku*, the ban on contact with the outside world was introduced. Today's Japanese still look to domestic destinations for their holiday breaks rather than abroad.

The Japan Travel Bureau (JTB) has forecast that 315m Japanese will make trips across the archipelago this year, an average 2.55 trips for each individual. Although these are mainly day-trips, holidaymakers are expected to spend Y14.6 trillion this year, a rise of 5.3 per cent on the previous year.

Most of these jaunts take place on the 12 annual national holidays or celebrations. For example, the JTB found that in the Golden Week (April 27 to May 7), 17.7m or 14.7 per cent of the population would travel, spending a total of Y908bn. Of these only 365,000 people were expected to go abroad.

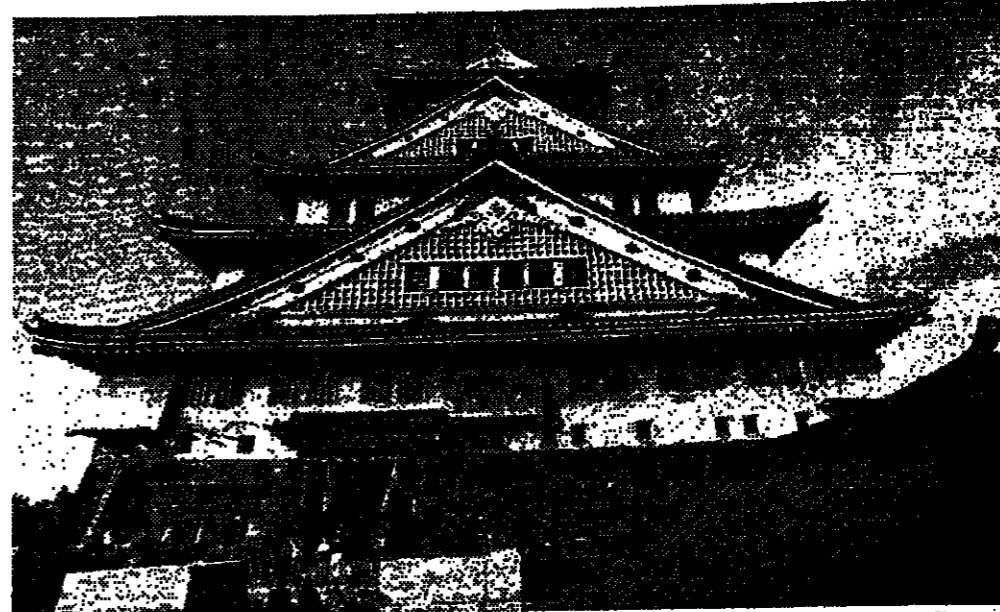
The biggest attractions seemed to be exhibitions in Yokohama and Fukuoka followed by Hokkaido, Tohoku, Setouchi and Kyushu regions.

Japan's holiday migrations, as elsewhere, are strongly influenced by seasonal factors. But for the Japanese, a variety of seasons are on offer all year round. The climate is generally temperate, but there is a wide variation between the extreme north and south.

Autumn and spring hold particular tourist attractions. In spring, special *hanami* or cherry blossom viewing parties are organised to follow the cherry blossom front, *sakura zensen*, as it begins its life in the south and moves steadily northwards. The blossoms are only at their best for a couple of days, so planning has to be precise.

During the summer season (July and August) summer resorts, beaches, hometown visits and sightseeing drew people away from their homes, the greatest number (one third of the 67m) going away on three-day trips.

A visit to Kyoto in wintery early November illustrated the preponderance of Japanese tourists. During a day's visit to the Heian Shrine, and Nijo Castle (two of Kyoto's prime tourist attractions) the number of *gaijin* (foreigners) or, Her-



Osaka Castle: popular domestic attraction for Japanese tourists

ally, "outside people" could be counted on one hand. The castle usually receives between 500,000 and 800,000 visitors over a holiday weekend.

Visitors to the shrine fell into two categories — the older generation who were there to sightsee and pray, and young parents accompanying children dressed in either Sunday best,

per cent of industries observe it today, most companies allow employees a five-day working week only twice a month and only 6 per cent have adopted it every week. Most Japanese employees work an official 40 to 41-hour week, compared with 37 hours (down from 39) in many European factories. Extended holidays are also a

Holiday migrations, as elsewhere, are strongly influenced by seasonal factors. But for the Japanese, a variety of seasons are on offer all year round. The climate is generally temperate, but there is a wide variation between the extreme north and south

western style, or in kimonos. The families were there to celebrate, *shichi-go-san*, (seven, three, five), when girls aged three and seven and boys aged five are taken to the local shrine to give thanks for having reached these ages and to pray for future health and happiness.

The shrinking of the Japanese working week is one of the reasons for the upsurge of domestic travel. The five-day working week was first introduced in 1973, although recent statistics show that about 50

percent of industries observe it today, most companies allow employees a five-day working week only twice a month and only 6 per cent have adopted it every week. Most Japanese employees work an official 40 to 41-hour week, compared with 37 hours (down from 39) in many European factories. Extended holidays are also a

recent invention for Japanese workers. Statistics vary, but the average annual holiday appears to be two weeks. The main holidays are Golden Week, the box festival or feast of the lanterns (the most important Buddhist festival, held to welcome the spirits of the dead), and New Year when people take from one week to 10 days leave.

tired to spend their holidays doing more than sleeping, eating and watching television. Those with enough energy, however, are, in increasing numbers, also travelling abroad — in 1988 there were 348,000 who left Japan for business or pleasure, rising to 8.5m in 1988. This year the JTB expects an 11 per cent increase with a total outlay of Y3.5 trillion (a 9.8 per cent increase on 1988).

Overwhelmingly, young married couples choose to spend their honeymoon abroad. Of the 230,000 couples who planned to get married in the spring (out of 700,000 weddings throughout the year), 93.2 per cent planned to spend their first nights together on foreign soil — preferably European (22 per cent) or Australian (16 per cent).

These honeymooners expected to spend 8 days on their overseas trips, or five if they were not going abroad. Each couple was expected to pay an average of Y47,000 if they were travelling abroad or Y275,000 for a domestic holiday.

As one travel agent quipped: "If you are upper class in Japan you spend your holidays here because you can afford it. If you are middle class you go abroad because it is cheaper."

However, a JTB travel brochure observes: "Although all sorts of sports and pastimes are popular in Japan, many company employees are too

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